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## Independent Auditors' Report

The Honorable Mayor and City Council  
City of Boston, Massachusetts:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Boston, Massachusetts, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Boston's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain entities, which represent 3% and 3% of the assets and revenues, respectively, of the aggregate remaining fund information and 23% and 24% of the assets and revenues, respectively, of the discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion on the financial statements, insofar as it relates to the aggregate remaining fund information and the discretely presented component units and their effects on the governmental and fiduciary activities, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the permanent funds and private-purpose trust funds were not audited in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Boston, Massachusetts, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2004 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.



The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 13 and the schedules of funding progress and employers' contributions on page 57 are not required parts of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Boston's basic financial statements. The combining, individual fund statements and schedules as listed in the foregoing table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. These combining, individual fund statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory and statistical sections of this report have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

Boston, Massachusetts

November 19, 2004



# CITY OF BOSTON, MASSACHUSETTS

## Required Supplementary Information

### Management's Discussion and Analysis

June 30, 2004

The City of Boston provides this Management's Discussion and Analysis to present additional information to the readers of the City's Basic Financial Statements. This narrative overview and analysis of the financial activities of the City of Boston is for the fiscal year ended June 30, 2004. Readers are encouraged to consider this information in conjunction with the additional information that is furnished in the City's Comprehensive Annual Financial Report (CAFR).

#### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Boston's financial statements. The City's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information regarding historical pension information. These components are described below:

#### Basic Financial Statements

The financial statements include two types of financial statements that present different views of the City – the *Government-Wide Financial Statements* and the *Fund Financial Statements*. These financial statements also include the *Notes to the Financial Statements* that explain some of the information in the financial statements and provide more detail.

#### Government-Wide Financial Statements

The *Government-Wide Financial Statements* provide a broad view of the City's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the City's financial position, which assists in assessing the City's economic condition at the end of the fiscal year. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year even if cash involved has not been received or paid. The government-wide financial statements include two statements:

The *Statement of Net Assets* presents all of the government's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the City.

Both of the above financial statements have separate sections for the three different types of city programs or activities. These three types of activities are:

*Governmental Activities* – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal and state grants). Most services normally associated with city government fall into this



## CITY OF BOSTON, MASSACHUSETTS

### Required Supplementary Information Management's Discussion and Analysis

June 30, 2004

category, including general government, human services, public safety, public works, property and development, parks and recreation, library, schools, county, public health programs, judgment and claims, retirement costs, state and district assessments, debt service, and other employee benefits.

*Business-Type Activities* – These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the City include the operations of the City of Boston Convention Center Bond Fund and the Hospital Bond Fund.

*Discretely Presented Component Units* – These are operations for which the City has financial accountability but they have certain independent qualities as well. For the most part, these entities operate similar to private sector businesses and the business-type activities described above.

The City's four discretely presented major component units are:

- Boston Public Health Commission
- Boston Redevelopment Authority
- Economic Development Industrial Corporation
- Trustees of the Boston Public Library

Complete financial statements of the individual component units can be obtained from their respective administrative offices. Additional information about the City's component units is presented in the notes to the financial statements.

The government-wide financial statements can be found immediately following this discussion and analysis.

#### ***Fund Financial Statements***

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The *Fund Financial Statements* focus on individual parts of the city government, reporting the City's operations in more detail than the government-wide statements. All of the funds of the City can be divided into three categories. It is important to note that these fund categories use different accounting approaches and should be interpreted differently. The three categories of funds are:

1. **Governmental Fund Financial Statements** – Most of the basic services provided by the City are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this approach, revenues are



## CITY OF BOSTON, MASSACHUSETTS

### Required Supplementary Information

#### Management's Discussion and Analysis

June 30, 2004

recorded when cash is received or when susceptible to accrual. Expenditures are recorded when liabilities are incurred and due. These statements provide a detailed short-term view of the City's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the City.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

The City has four governmental funds. Each fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The City's three major governmental funds are – the General Fund, the Special Revenue Fund, and the Capital Projects Fund. All nonmajor governmental funds are combined in the "Other Governmental Funds" columns on these statements. The governmental funds financial statements can be found immediately following the government-wide statements.

Of the City's four governmental funds, the General Fund is the only fund for which a budget is legally adopted. The *Budgetary Statement or Statement of Revenues and Expenditures – Budgetary Basis* is presented on page 20. This Statement provides a comparison of the original and final budget and the actual expenditures for the current and prior year.

In accordance with state law and regulations, the City's legally adopted general fund budget is prepared on a "budgetary" basis instead of generally accepted accounting principles (GAAP). Among the key differences between these two sets of accounting principles are that "budgetary" records property tax as it is levied, while GAAP records it as it becomes susceptible to accrual, "budgetary" records certain activities and transactions in the general fund that GAAP records in separate funds, and "budgetary" records as an expenditure any amount raised to cover for a prior year deficit, and as a revenue any available funds raised from prior year surpluses, while GAAP ignores these impacts from prior years. The difference in accounting principles inevitably leads to varying results in excess or deficiency of revenues over expenditures. Additional information and a reconciliation of "budgetary" to GAAP statements is provided in note 4 of the financial statements.

2. **Proprietary Funds Financial Statements** – These funds are used to show activities that operate more like those of commercial enterprises. Because these funds charge fees for services provided to outside customers including local governments, they are known as enterprise funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary fund financial statements use the accrual basis of accounting. No reconciliation is needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements.



## CITY OF BOSTON, MASSACHUSETTS

### Required Supplementary Information Management's Discussion and Analysis

June 30, 2004

The basic proprietary funds financial statements can be found immediately following the governmental fund financial statements.

- 3. Fiduciary Funds Financial Statements** – These funds are used to account for resources held for the benefit of parties outside the City government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. They use the accrual basis of accounting.

The City's fiduciary funds are the Employee Retirement Fund (the State-Boston Retirement System and the), which accounts for the transactions, assets, liabilities, and net assets of the City employees' pension plan, and the Private Purpose Trust Funds, which includes money held and administered by the City on behalf of third parties.

The fiduciary funds financial statements can be found immediately following the proprietary fund financial statements.

#### *Notes to the Financial Statements*

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the fiduciary funds' financial statements.

#### *Required Supplementary Information*

The basic financial statements are followed by a section of required supplementary information, which includes a schedule of funding progress and a schedule of employer contributions for the State-Boston Retirement System.

#### **Government-Wide Financial Analysis**

This analysis is based on the statement of net assets and statement of activities found on pages 14 and 15 of the financial statements.

#### *Government-Wide Highlights*

**Net Assets** – The total net assets of the City exceeded its liabilities at fiscal year ending June 30, 2004 by \$417.9 million (presented as "net assets"). Of this amount, \$66.2 million was reported as "unrestricted net assets". Unrestricted net assets represent the amount available to be used to meet the City's ongoing obligations to citizens and creditors.

**Changes in Net Assets** – The City's total net assets increased by \$177.2 million in fiscal year 2004. Net assets of governmental activities increased by \$184.3 million, while net assets of the business-type activities showed a decrease of \$7.1 million.



# CITY OF BOSTON, MASSACHUSETTS

## Required Supplementary Information

### Management's Discussion and Analysis

June 30, 2004

#### Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's combined net assets (government and business-type activities) totaled \$417.9 million at the end of 2004, compared to \$240.7 million at the end of the previous year.

The components of net assets are comprised of the following: the investment in capital assets such as land, buildings, equipment, and infrastructure (road, bridges, and other immovable assets), less any related debt used to acquire that asset that is still outstanding – this amount is \$92.8 million indicating that the net book value of the City's capital assets exceeds the amount of capital debt outstanding. The City uses these capital assets to provide services to citizens; consequentially, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A large portion of the City's governmental net assets (62.0%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the City's ongoing obligations to citizens and creditors. Internally imposed designations of resources are not presented as restricted net assets.

At the end of the current fiscal year, the City is reporting a positive balance for the government as a whole. The negative balance reported for Business-Type Activities is offset by the positive balance reported for Governmental Activities. The negative balance in Business-Type Activities is a result of special obligation bonds outstanding at year-end. The negative balance is intended to be covered by user charges, grants and lease receipts from third parties.

#### City of Boston Net Assets – Primary Government

(In thousands)

	Governmental activities		Business-type activities		Total	
	2004	2003	2004	2003	2004	2003
Current assets	\$ 1,105,228	923,629	46,510	58,267	1,151,738	981,896
Capital assets	979,662	889,665	—	—	979,662	889,665
Other assets	4,912	2,352	3,174	3,360	8,086	5,712
Due from others	29,326	33,679	99,739	104,869	129,065	138,548
Total assets	\$ 2,119,128	1,849,325	149,423	166,496	2,268,551	2,015,821
Noncurrent liabilities	\$ 933,633	842,966	227,126	236,256	1,160,759	1,079,222
Other liabilities	677,937	683,057	11,951	12,822	689,888	695,879
Total liabilities	\$ 1,611,570	1,526,023	239,077	249,078	1,850,647	1,775,101
Invested in capital assets net of related debt	\$ 92,802	(6,784)	—	—	92,802	(6,784)
Restricted	258,940	210,077	—	—	258,940	210,077
Unrestricted	155,816	120,009	(89,654)	(82,582)	66,162	37,427
Total net assets	\$ 507,558	323,302	(89,654)	(82,582)	417,904	240,720



# CITY OF BOSTON, MASSACHUSETTS

## Required Supplementary Information

### Management's Discussion and Analysis

June 30, 2004

#### City of Boston Changes in Net Assets – Primary Government

(In thousands)

	Governmental activities		Business-type activities		Totals	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program revenues:						
Charges for services	\$ 140,418	127,367	—	12,877	\$ 140,418	140,244
Operating grants and contributions	644,429	503,696	24,256	—	668,685	503,696
Capital grants and contributions	38,595	30,327	—	—	38,595	30,327
General revenues:						
Taxes:						
Property taxes, levied for general purposes	1,103,003	1,005,684	—	—	1,103,003	1,005,684
Excises	91,551	95,157	23,845	23,348	115,396	118,505
Payment in lieu of taxes	42,373	40,910	—	—	42,373	40,910
Grants and contributions not restricted	171,976	234,719	—	—	171,976	234,719
Investment income	18,304	18,655	5,653	8,377	23,957	27,032
Miscellaneous	11,849	33,245	—	—	11,849	33,245
Total revenues	2,262,498	2,089,760	53,754	44,602	2,316,252	2,134,362
Program expenses:						
General government	77,022	60,112	—	—	77,022	60,112
Human services	32,180	32,357	—	—	32,180	32,357
Public safety	415,482	420,108	—	—	415,482	420,108
Public works	95,104	94,316	—	—	95,104	94,316
Property and development	118,764	93,265	—	—	118,764	93,265
Parks and recreation	13,667	19,766	—	—	13,667	19,766
Library	30,479	33,938	—	—	30,479	33,938
Schools	786,907	791,540	—	—	786,907	791,540
Public health programs	58,848	63,897	—	—	58,848	63,897
County	102,212	100,745	—	—	102,212	100,745
Judgments and claims	(1,782)	2,880	—	—	(1,782)	2,880
Retirement costs	87,934	74,720	—	—	87,934	74,720
Other employee benefits	115,944	114,209	—	—	115,944	114,209
State and district assessments	111,061	69,009	—	—	111,061	69,009
Repairs and maintenance	12,378	21,929	—	—	12,378	21,929
Interest on long-term debt	39,042	48,397	—	—	39,042	48,397
Convention center	—	—	38,541	40,786	38,541	40,786
Hospital	—	—	5,285	8,881	5,285	8,881
Total program expenses	2,095,242	2,041,188	43,826	49,667	2,139,068	2,090,855
Excess (deficiency) before special items and transfers	167,256	48,572	9,928	(5,065)	177,184	43,507
Transfers	17,000	18,000	(17,000)	(18,000)	—	—
Change in net assets	184,256	66,572	(7,072)	(23,065)	177,184	43,507
Net assets – beginning	323,302	256,730	(82,582)	(59,517)	240,720	197,213
Net assets – ending	\$ 507,558	323,302	(89,654)	(82,582)	417,904	240,720



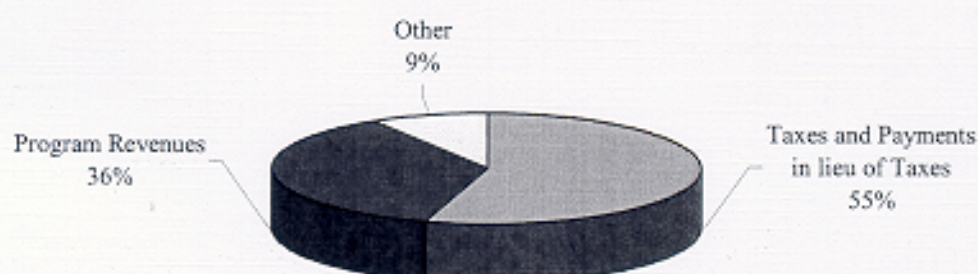
**CITY OF BOSTON, MASSACHUSETTS**

Required Supplementary Information

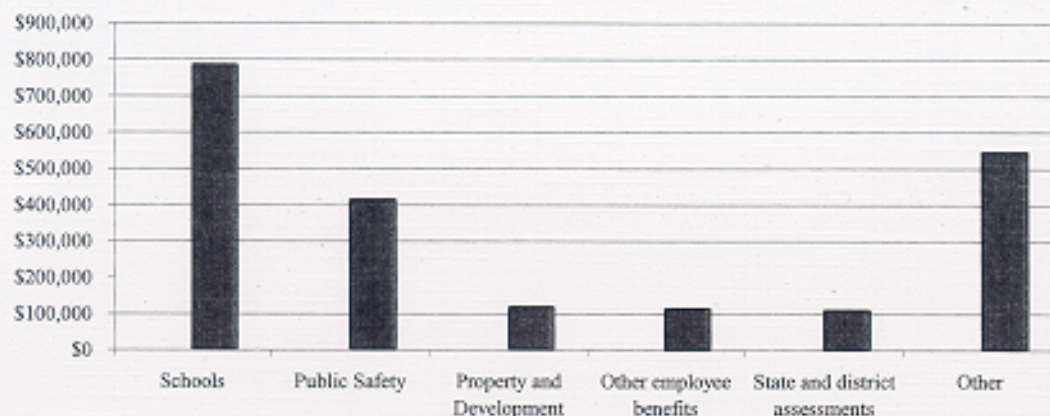
Management's Discussion and Analysis

June 30, 2004

**Revenues – Governmental Activities  
Fiscal Year 2004**



**Expenses – Governmental Activities  
Fiscal Year 2004  
(In thousands)**





## CITY OF BOSTON, MASSACHUSETTS

### Required Supplementary Information Management's Discussion and Analysis

June 30, 2004

#### **Governmental Activities**

The City's governmental activities net assets increased by \$184.3 million over the prior fiscal year. The following net changes occurred during the course of operations in fiscal 2004: In Assets, cash and investments increased by \$157.0 million, receivables increased by \$24.6 million, capital assets increased by \$90.0 million. In the liability accounts, there were increases in warrants payable of \$36.9 million, accrued liabilities of \$27.0 million and current long term debt of \$41.7 million, with a \$33.0 million decrease in deferred revenue.

The City's largest sources of revenues were property and excise taxes and payments in lieu of taxes of \$1.24 billion and \$823.4 million of program revenues. Approximately 54.7% of the City's total revenue came from taxes and payments in lieu of taxes, while 36.4% resulted from program revenues. Interest, unrestricted grants and contributions, and other miscellaneous revenues totaled \$202.1 million. The City's expenses cover a range of services. The largest expenses were for schools (\$786.9 million), public safety (\$415.5 million), property and development (\$118.8 million), other employee benefits (\$115.9 million), State and district assessments (\$111.1 million), county (\$102.2 million) public works (\$95.1 million), and general government (\$77.0 million). In 2004, governmental activities expenses exceeded program revenues (i.e., user charges, operating grants and capital grants) by \$1.27 billion. This shortfall was covered primarily through taxes (\$1.24 billion) and grants and contributions not restricted of (\$172.0 million).

Significant changes in revenues and expenses from the prior year include increases in property tax revenue of \$97.3 million and Federal and State grant revenue of \$77.0 million, offset by increases in property and development of \$26.0 million, general government of \$17.0 million and retirement costs of \$13.0 million.

#### **Business-Type Activities**

Net assets from business-type activities fell by \$7.1 million during fiscal 2004. This change in net assets resulted primarily from ongoing debt service for the Convention Center and additional land taking expenses incurred in Land Court on properties acquired by eminent domain.

#### **Financial Analysis of the City's Individual Funds**

This analysis is based on the Fund Financial Statements on pages 16 through 26.

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

#### ***Fund Highlights***

*Governmental Funds – Fund Balances* – As of the close of fiscal year 2004, the City's governmental funds reported a combined ending fund balance of \$832.2 million, an increase of \$130.7 million from the prior year. Of this total amount, \$455.3 million represents the "unreserved and undesignated fund balances" with \$377.1 million of this amount in the general fund.

#### **Governmental Funds**

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financial requirements. In



## CITY OF BOSTON, MASSACHUSETTS

### Required Supplementary Information

#### Management's Discussion and Analysis

June 30, 2004

particular, unreserved fund balance may serve as a useful measure of a government's financial position at the end of the fiscal year.

*General Fund – Fund Balance* – The general fund is the chief operating fund of the City. The City's General Fund – Fund Balance Policy states in part to maintain a GAAP undesignated fund balance in the general fund that is 10%, or higher, of GAAP general fund operating expenditures for the fiscal year. The GAAP undesignated fund balance at the end of fiscal year 2004 was \$377.1 million, which represents approximately 21.4% of GAAP general fund operating expenditures.

However, because the City is required to follow the statutory basis of accounting rather than GAAP for determining the amount of undesignated fund balance that can be appropriated, it is the statutory (not the GAAP) fund balance that is used to calculate "free cash". Free cash is the amount of statutory fund balance in the general fund, as certified by the Commonwealth of Massachusetts' Department of Revenue that is available for appropriation and is generated when actual revenues, on a cash basis, exceeded budgeted amounts and encumbrances are less than appropriations, or both.

The City of Boston has established the General Fund-Fund Balance Policy to ensure that the City maintains adequate levels of fund balance to mitigate current and future risks (i.e. revenue shortfalls and unanticipated expenditures). The policy in full states that the City shall maintain a GAAP undesignated fund balance in the general fund that is 10% or higher than the current fiscal year's GAAP general fund operating expenditures; and that the City shall only consider the certification of free cash (as defined by the Commonwealth of Massachusetts' Department of Revenue) in years where the appropriation of free cash shall not cause the fiscal year's GAAP undesignated fund balance to go below 10% of the fiscal year's GAAP general fund expenditures while maintaining a Budgetary Undesignated Fund Balance between 5% and 10% of Budgetary Operating Expenses.

The City shall only consider the appropriation of certified free cash to offset: (1) certain fixed costs such as pension contributions and related post-employment health benefits; and/or (2) to fund extraordinary and nonrecurring events as determined and certified by the City Auditor.

The general fund budgetary highlights include ending fiscal year 2004 with a \$4.4 million dollar surplus. This represents the City's 19<sup>th</sup> consecutive year with a balanced budget. Changes to the original budget resulted in an increase of \$180 thousand to the overall budget. However, there were three supplemental appropriations in the amount of \$11.2 million from the reserve for collective bargaining to the School Department and other City departments. These appropriations were used for salary and wage increases. These supplemental appropriations were funded from available revenue sources. During the year, revenues exceeded budgetary estimates, thus eliminating the need to draw from existing fund balance.

*Special Revenue – Fund Balance* – The special revenue fund accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for predefined purposes. The fiscal year 2004 special revenue fund balance is reported at \$158.9 million, a \$47.4 million increase from fiscal year 2003.

*Capital Projects Fund – Fund Balance* – The capital projects fund accounts for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds and trust



## CITY OF BOSTON, MASSACHUSETTS

### Required Supplementary Information Management's Discussion and Analysis

June 30, 2004

funds. The fiscal year 2004 capital projects fund balance is \$55.3 million. The \$1.5 million decrease from fiscal year 2003 is attributable to the timing of borrowing of General Obligation Bond Sales.

*Other Governmental Funds – Fund Balance* – Other governmental funds account for assets held by the City in permanent trust funds. The fiscal year 2004 other governmental funds fund balance is \$44.8 million, a \$3.0 million increase from fiscal year 2003.

#### **Proprietary Funds**

The City's proprietary funds provide the same type of information found in the government-wide financial statements for business-type activities. This information is presented on the same basis of accounting, but in more detail.

The City's proprietary funds net assets for fiscal year 2004 are a negative \$89.7 million. As stated in the discussion on the government-wide financial statements, the negative balance in the proprietary funds is a result of the Convention Center special obligation bonds and Hospital special obligation bonds outstanding at year-end.

#### **Capital Asset and Debt Administration**

##### *Capital Assets*

The City's investment in capital assets for its governmental activities as of June 30, 2004, included \$2.00 billion of cost and accumulated depreciation of \$1.02 billion, leaving a net book value of \$979.7 million. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and have value only to the City, such as roads, bridges, streets, sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the City's investment in capital assets for the current fiscal year was about 10.1% in terms of net book value. However, actual expenditures to purchase or construct capital assets were \$122.5 million for the year. Most of this amount was used for the purpose of constructing or reconstructing buildings and building improvements. Depreciation charges for the year totaled \$32.5 million. Additional information on the City's capital assets can be found in note 8 of the notes to the basic financial statements.

##### *Long-Term Obligations*

*Debt Administration* – The authority of the City to incur debt is governed by federal and state laws that restrict the amounts and purposes for which a municipality can incur debt. At year-end, the City had \$893.5 million in General Obligations Bonds principal outstanding – an increase of 2.2 % over last year.

The key factors in this increase were the issuance of the February 1, 2004 Series A \$100.9 million General Obligation Bonds, \$35.9 million of which were Refunding Bonds. Additionally, the City issued \$42.3 million of General Obligation Refunding Bonds, 2004 Series B dated April 1, 2004.

General obligation bonds are backed by the full faith and credit of the City, including the City's power to levy additional taxes to ensure repayment of the debt. Accordingly, all general obligation debt currently outstanding has been approved by a vote of the City Council.



**CITY OF BOSTON, MASSACHUSETTS**

**Required Supplementary Information**

**Management's Discussion and Analysis**

**June 30, 2004**

*Notes Payable and Other Long-Term Obligations* – The City's general long-term notes and other obligations increased by \$9.6 million, or 2.7% during the current fiscal year. The key factors were reductions in judgments and claims of \$5.2 million and leases of \$4.9 million, offset by net increases in compensated absences of \$6.6 million and Notes payable – Section 108 of \$13.5 million.

Additional information on the City's long-term debt obligations can be found in note 10 of the notes to the basic financial statements.

**Requests for Information**

This financial report is designed to provide a general overview of the City of Boston's finances for all of City of Boston's citizens, taxpayers, customers, investors and creditors. This financial report seeks to demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: City of Boston, Auditing Department, Boston City Hall, Room M-4, Boston, MA 02201.



## CITY OF BOSTON, MASSACHUSETTS

## Statement of Net Assets

June 30, 2004

(In thousands)

	Primary government		Total	Component units
	Governmental activities	Business-type activities		
<b>Assets:</b>				
Cash and investments	\$ 828,317	525	828,842	207,676
Cash and investments held by trustees	48,253	45,985	94,238	3,880
Receivables, net:				
Property taxes	12,599	—	12,599	—
Intergovernmental	193,630	—	193,630	—
Other	22,429	—	22,429	112,135
Other assets	4,912	3,174	8,086	163,092
Capital assets:				
Nondepreciable	522,012	—	522,012	19,609
Depreciable, net	457,650	—	457,650	37,732
Internal balances	17,000	(17,000)	—	—
Due from BMC	—	—	—	1,401
Due from component units	12,326	116,739	129,065	—
Due from primary government	—	—	—	180
<b>Total assets</b>	<b>2,119,128</b>	<b>149,423</b>	<b>2,268,551</b>	<b>545,705</b>
<b>Liabilities:</b>				
Warrants and accounts payable	90,043	—	90,043	75,404
Accrued liabilities – current:				
Tax abatement liability	22,800	—	22,800	—
Compensated absences	35,808	—	35,808	—
Judgments and claims	6,960	—	6,960	—
Payroll and related costs	116,089	—	116,089	—
Deposits and other	82,522	3,046	85,568	2,561
Current portion of long-term debt and leases	137,220	8,905	146,125	1,349
Due to component units	180	—	180	—
Due to BMC	—	—	—	74,562
Due to primary government	—	—	—	129,065
Deferred revenue	14,801	—	14,801	49,121
Noncurrent liabilities:				
Bonds due in more than one year	778,887	227,126	1,006,013	78,496
Notes and leases payable due in more than one year	154,746	—	154,746	—
Other noncurrent liabilities	171,514	—	171,514	5,451
<b>Total liabilities</b>	<b>1,611,570</b>	<b>239,077</b>	<b>1,850,647</b>	<b>416,009</b>
<b>Net assets:</b>				
Investment in capital assets, net of related debt	92,802	—	92,802	34,915
Restricted for:				
Capital projects	55,277	—	55,277	—
Expendable trust	44,798	—	44,798	—
Other purposes	158,865	—	158,865	63,661
Unrestricted	155,816	(89,654)	66,162	31,120
<b>Total net assets</b>	<b>\$ 507,558</b>	<b>(89,654)</b>	<b>417,904</b>	<b>129,696</b>

See accompanying notes to basic financial statements.



## CITY OF BOSTON, MASSACHUSETTS

## Statement of Activities

Year ended June 30, 2004

(In thousands)

Functions/programs	Expenses	Program revenues			Net (expense) revenue and changes in net assets			Component units
		Charges for services	Operating grants and contributions	Capital grants and contributions	Primary government			
					Governmental activities	Business-type activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 77,022	9,309	11,041	9,536	(47,136)	—	(47,136)	—
Human services	32,180	13	14,164	—	(18,003)	—	(18,003)	—
Public safety	415,482	105,405	39,350	2,276	(268,451)	—	(268,451)	—
Public works	95,104	3,806	51	7,524	(83,723)	—	(83,723)	—
Property and development	118,764	3,547	64,622	—	(50,595)	—	(50,595)	—
Parks and recreation	13,667	1,989	1,249	1,090	(9,339)	—	(9,339)	—
Library	30,479	322	5,896	368	(23,893)	—	(23,893)	—
Schools	786,907	12,868	403,854	17,801	(352,384)	—	(352,384)	—
Public health programs	58,848	—	—	—	(58,848)	—	(58,848)	—
County	102,212	156	104,202	—	2,146	—	2,146	—
Judgments and claims	(1,782)	—	—	—	1,782	—	1,782	—
Retirement costs	87,934	3,003	—	—	(84,931)	—	(84,931)	—
Other employee benefits	115,944	—	—	—	(115,944)	—	(115,944)	—
State and district assessments	111,061	—	—	—	(111,061)	—	(111,061)	—
Repairs and maintenance	12,378	—	—	—	(12,378)	—	(12,378)	—
Interest on long-term debt	39,042	—	—	—	(39,042)	—	(39,042)	—
Total governmental activities	2,095,242	140,418	644,429	38,595	(1,271,800)	—	(1,271,800)	—
Business-type activities:								
Convention Center	38,541	—	24,256	—	—	(14,285)	(14,285)	—
Hospital bonds	5,285	—	—	—	—	(5,285)	(5,285)	—
Total business-type activities	43,826	—	24,256	—	—	(19,570)	(19,570)	—
Total primary government	\$ 2,139,068	140,418	668,685	38,595	(1,271,800)	(19,570)	(1,291,370)	—
Component units:								
Boston Public Health Commission	\$ 116,123	—	106,033	842	—	—	—	(9,248)
Boston Redevelopment Authority	47,702	11,439	31,958	—	—	—	—	(4,305)
Trustees of the Public Library of the City of Boston	14,580	604	12,194	—	—	—	—	(1,782)
Economic Development and Industrial Corporation of Boston	31,987	12,074	18,002	—	—	—	—	(1,911)
Total component units	\$ 210,392	24,117	168,187	842	—	—	—	(17,246)
General revenues:								
Taxes:								
Property taxes, levied for general purposes					1,103,003	—	1,103,003	—
Excises					91,551	23,845	115,396	—
Payments in lieu of taxes					42,373	—	42,373	—
Grants and contributions not restricted					171,976	—	171,976	—
Investment income					18,304	5,653	23,957	8,038
Miscellaneous					11,849	—	11,849	16,023
Transfers					17,000	(17,000)	—	—
Total general revenues and transfers					1,456,056	12,498	1,468,554	24,061
Change in net assets					184,256	(7,072)	177,184	6,815
Net assets – beginning of year					323,302	(82,582)	240,720	121,492
Prior period adjustment					—	—	—	1,389
Net assets – end of year					\$ 507,558	(89,654)	417,904	129,696



**CITY OF BOSTON, MASSACHUSETTS**

**Balance Sheet – Governmental Funds**

June 30, 2004

(In thousands)

<b>Assets</b>	<b>General</b>	<b>Special revenue</b>	<b>Capital projects</b>	<b>Other governmental funds</b>	<b>Total governmental funds</b>
Cash and investments	\$ 609,638	116,283	82,694	—	808,615
Cash and investments held by trustees	—	—	3,094	45,159	48,253
Receivables, net:					
Property taxes	12,599	—	—	—	12,599
Intergovernmental	77,414	116,216	—	—	193,630
Departmental and other	21,749	—	—	385	22,134
Total receivables	111,762	116,216	—	385	228,363
Due from other funds	25,201	1,499	—	—	26,700
Due from component units	12,285	—	—	—	12,285
Other assets	333	1	—	—	334
Total assets	\$ 759,219	233,999	85,788	45,544	1,124,550
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Warrants and accounts payable	\$ 52,187	32,532	4,560	746	90,025
Accrued liabilities:					
Payroll and related costs	94,784	—	—	—	94,784
Deposits and other	4,596	34,401	25,951	—	64,948
Deferred revenue	32,108	—	—	—	32,108
Due to other funds	2,144	8,201	—	—	10,345
Due to component units	180	—	—	—	180
Total liabilities	185,999	75,134	30,511	746	292,390
Fund balances (deficit):					
Reserved for:					
Encumbrances	56,132	34,738	50,821	84	141,775
Future appropriations	—	—	50,374	—	50,374
Unreserved:					
Designated for subsequent years expenditures	139,986	—	—	—	139,986
Undesignated	377,102	124,127	(45,918)	—	455,311
Reported in permanent funds	—	—	—	44,714	44,714
Total fund balance	573,220	158,865	55,277	44,798	832,160
Total liabilities and fund balances	\$ 759,219	233,999	85,788	45,544	1,124,550

See accompanying notes to basic financial statements.



# CITY OF BOSTON, MASSACHUSETTS

## Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2004

(In thousands)

Total fund balance – Governmental Funds	\$ 832,160
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:	
Land	14,466
Land improvements	25,021
Buildings and improvements	1,024,418
Furniture and equipment	160,075
Infrastructure	266,950
Construction in progress	507,546
Less accumulated depreciation	(1,018,814)
	979,662
Adjust deferred revenues and receivables to record revenues on an accrual basis	17,307
Internal service funds are included in the government-wide statements	16,532
Bond issuance costs are capitalized in the government-wide statements	2,598
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
General obligation bonds and notes	(1,044,161)
Capital leases	(12,600)
Bond issue premiums	(23,643)
Deferred bond gains/losses	9,551
Accrued interest on bonds	(17,574)
Payroll and compensated absences	(189,459)
Landfill	(14,547)
Judgments and claims	(25,468)
Tax abatements	(22,800)
	(1,340,701)
Net assets of governmental activities	\$ 507,558

See accompanying notes to basic financial statements.



## CITY OF BOSTON, MASSACHUSETTS

Statement of Revenues, Expenditures, and Changes in Fund Balances –  
Governmental Funds

Year ended June 30, 2004

(In thousands)

	General	Special revenue	Capital projects	Other governmental funds	Total governmental funds
<b>Revenues:</b>					
Real and personal property taxes	\$ 1,082,574	—	—	—	1,082,574
Excises	85,354	—	—	—	85,354
Payments in lieu of taxes	42,373	—	—	—	42,373
Fines	66,342	19	—	—	66,361
Investment income	8,253	175	—	52	8,480
Licenses and permits	33,900	70	—	—	33,970
Departmental and other	45,556	26,374	7,985	9,536	89,451
Intergovernmental	459,836	356,555	10,917	—	827,308
<b>Total revenues</b>	<b>1,824,188</b>	<b>383,193</b>	<b>18,902</b>	<b>9,588</b>	<b>2,235,871</b>
<b>Expenditures:</b>					
<b>Current:</b>					
General government	30,061	3,175	—	6,552	39,788
Human services	22,642	9,337	—	—	31,979
Public safety	390,854	21,052	—	—	411,906
Public works	87,045	286	—	—	87,331
Property and development	31,088	86,599	—	—	117,687
Parks and recreation	11,260	1,230	—	—	12,490
Library	24,089	5,409	—	—	29,498
Schools	656,291	124,356	—	—	780,647
Public health programs	58,762	86	—	—	58,848
County	—	102,044	—	—	102,044
Judgments and claims	(3,544)	—	—	—	(3,544)
Retirement costs	87,934	—	—	—	87,934
Other employee benefits	129,937	—	—	—	129,937
State and district assessments	111,061	—	—	—	111,061
Capital outlays	393	1,891	132,562	33	134,879
Debt service	120,938	3,054	—	—	123,992
<b>Total expenditures</b>	<b>1,758,811</b>	<b>358,519</b>	<b>132,562</b>	<b>6,585</b>	<b>2,256,477</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>65,377</b>	<b>24,674</b>	<b>(113,660)</b>	<b>3,003</b>	<b>(20,606)</b>
<b>Other financing sources (uses):</b>					
Long-term debt and capital leases issued	—	15,000	147,986	—	162,986
Payments to escrow agent to refund debt	(511)	(4,096)	(35,819)	—	(40,426)
Premiums on long-term debt issued	—	11,775	—	—	11,775
Transfers in	17,000	—	—	—	17,000
<b>Total other financing sources (uses)</b>	<b>16,489</b>	<b>22,679</b>	<b>112,167</b>	<b>—</b>	<b>151,335</b>
<b>Net change in fund balances</b>	<b>81,866</b>	<b>47,353</b>	<b>(1,493)</b>	<b>3,003</b>	<b>130,729</b>
<b>Fund balance – beginning</b>	<b>491,354</b>	<b>111,512</b>	<b>56,770</b>	<b>41,795</b>	<b>701,431</b>
<b>Fund balance – ending</b>	<b>\$ 573,220</b>	<b>158,865</b>	<b>55,277</b>	<b>44,798</b>	<b>832,160</b>

See accompanying notes to basic financial statements.



# CITY OF BOSTON, MASSACHUSETTS

## Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities

Year ended June 30, 2004

Net change in fund balances – total governmental funds	\$	130,729
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is depreciated over their estimated useful lives. Capital outlays (\$122,501) exceeded depreciation expense (\$32,504).		89,997
Tax revenues in the statement of activities that are not reported as revenues in the governmental funds.		26,625
Proceeds of long-term debt (\$162,985) increase long-term liabilities in the statement of net assets, but are included in the operating statement of the governmental funds. Repayment of bond principal (\$135,181) is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments.		(27,804)
Bond premiums net (\$10,659) increase the long-term liabilities in the statement of net assets, but are included in the operating statement of the governmental funds. Bond issuance costs net (\$2,552) are expenditures in the governmental funds, before deferred assets in the statement of assets. This is the amount by which premiums exceeded issuance costs.		(8,107)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. This amount represents the increase in liabilities for compensated absences (\$16,868), payroll settlements (\$21,305) and interest payable (\$1,274) offset by a decrease in landfill liabilities (\$31) and judgments and claims (\$3,630).		(35,786)
Net income from the internal service fund which is presented in the statement of activities, but not in the governmental funds.		8,602
Change in net assets of governmental activities	\$	<u>184,256</u>

See accompanying notes to basic financial statements.



**CITY OF BOSTON, MASSACHUSETTS**  
**Statement of Revenues and Expenditures – Budgetary Basis**  
**General Fund – Budget and Actual**  
**Year ended June 30, 2004**  
**(with comparative actual amounts for 2003)**  
**(In thousands)**

		<b>2004</b>		<b>Variance</b>	<b>2003</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>over</b>	<b>Actual</b>
	<b>budget</b>	<b>budget</b>		<b>(under)</b>	
<b>Revenues and other available funds:</b>					
Real and personal property taxes, net	\$ 1,051,862	1,051,862	1,052,067	205	996,030
Excises	93,604	93,604	94,269	665	118,405
Commonwealth of Massachusetts	504,619	504,619	521,232	16,613	498,217
Departmental and other revenue	37,194	37,194	50,959	13,765	54,720
Fines	59,950	59,950	66,342	6,392	58,985
Payments in lieu of taxes	37,610	37,610	42,373	4,763	40,910
Investment income	4,200	4,380	7,792	3,412	8,552
Licenses and permits	21,030	21,030	34,820	13,790	30,146
Other available funds	41,808	41,808	22,933	(18,875)	24,849
<b>Total revenues and other available funds</b>	<b>1,851,877</b>	<b>1,852,057</b>	<b>1,892,787</b>	<b>40,730</b>	<b>1,830,814</b>
<b>Expenditures:</b>					
General government	72,421	62,607	75,926	(13,319)	65,401
Human services	24,654	23,118	22,945	173	24,936
Public safety	387,895	388,801	393,827	(5,026)	408,849
Public works	83,133	85,310	87,639	(2,329)	86,599
Property and development	24,018	26,514	26,400	114	34,744
Parks and recreation	13,072	13,706	13,436	270	14,680
Library	23,981	24,086	24,086	—	27,726
Schools	646,100	656,547	656,539	8	650,600
Boston Public Health Commission	58,582	58,762	58,762	—	63,897
County	—	—	—	—	4,737
Judgments and claims	3,500	3,500	18,842	(15,342)	2,166
Other employee benefits	132,373	132,377	133,206	(829)	115,164
Retirement costs	141,867	141,867	141,867	—	139,325
State and district assessments	114,207	110,996	111,061	(65)	69,009
Debt requirements	126,074	123,866	123,866	—	121,184
<b>Total expenditures</b>	<b>1,851,877</b>	<b>1,852,057</b>	<b>1,888,402</b>	<b>(36,345)</b>	<b>1,829,017</b>
<b>Excess of revenues and other available funds over expenditures</b>	<b>\$ —</b>	<b>—</b>	<b>4,385</b>	<b>4,385</b>	<b>1,797</b>

See accompanying notes to basic financial statements.



## CITY OF BOSTON, MASSACHUSETTS

## Statement of Net Assets – Proprietary Funds

June 30, 2004

(In thousands)

	Enterprise funds			
	Convention center	Hospital revenue bonds	Total	Internal service
Assets:				
Current assets:				
Cash and investments	\$ 525	—	525	19,702
Cash and investments held by trustees	26,277	19,708	45,985	—
Receivables, net	—	—	—	295
Total current assets	26,802	19,708	46,510	19,997
Noncurrent assets:				
Due from other funds	—	—	—	645
Due from component units	—	116,739	116,739	41
Other assets	1,431	1,743	3,174	1,980
Total assets	28,233	138,190	166,423	22,663
Liabilities:				
Current liabilities:				
Warrants and accounts payable	—	—	—	17
Accrued liabilities	—	—	—	6,114
Due to other funds	17,000	—	17,000	—
Accrued interest payable	915	2,131	3,046	—
Current portion of long-term debt	2,780	6,125	8,905	—
Total current liabilities	20,695	8,256	28,951	6,131
Noncurrent liabilities:				
Special obligation bonds	109,700	—	109,700	—
Revenue bonds	—	117,426	117,426	—
Total noncurrent liabilities	109,700	117,426	227,126	—
Total liabilities	130,395	125,682	256,077	6,131
Net assets:				
Unrestricted	(102,162)	12,508	(89,654)	16,532
Total net assets	\$ (102,162)	12,508	(89,654)	16,532

See accompanying notes to basic financial statements.



**CITY OF BOSTON, MASSACHUSETTS**

Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds

Year ended June 30, 2004

(In thousands)

	<b>Enterprise funds</b>			
	<b>Convention center</b>	<b>Hospital revenue bonds</b>	<b>Total</b>	<b>Internal service</b>
Operating revenues:				
Contributions	\$ —	—	—	84,292
Excise taxes – pledged for debt service	23,845	—	23,845	—
Departmental and other	3,326	—	3,326	36
Total operating revenues	27,171	—	27,171	84,328
Operating expenses:				
Payments made on behalf of State	32,890	—	32,890	—
Health benefits	—	—	—	75,726
Total operating expenses	32,890	—	32,890	75,726
Operating (loss) income	(5,719)	—	(5,719)	8,602
Nonoperating revenue (expense):				
Intergovernmental – state grants	20,930	—	20,930	—
Investment earnings – pledged for debt service	—	5,595	5,595	—
Investment earnings – other	58	—	58	—
Interest expense	(5,651)	(5,285)	(10,936)	—
Total nonoperating revenue (expense)	15,337	310	15,647	—
Income before transfers	9,618	310	9,928	8,602
Transfer to general fund	(17,000)	—	(17,000)	—
Change in net assets	(7,382)	310	(7,072)	8,602
Total net assets – beginning	(94,780)	12,198	(82,582)	7,930
Total net assets – ending	\$ (102,162)	12,508	(89,654)	16,532

See accompanying notes to basic financial statements.



**CITY OF BOSTON, MASSACHUSETTS**  
**Statement of Cash Flows – Proprietary Fund Types**  
Year ended June 30, 2004  
(In thousands)

	Enterprise funds			
	Convention center	Hospital revenue bonds	Total	Internal service
Cash flows from operating activities:				
Cash received from taxes	\$ 24,985	—	24,985	84,276
Other cash received	3,326	—	3,326	36
Cash paid to vendors	—	—	—	(78,743)
Cash payments on behalf of State	(32,890)	—	(32,890)	—
Net cash (used) provided in operations	(4,579)	—	(4,579)	5,569
Cash flows from noncapital financing activities:				
Grants received from State	20,930	—	20,930	—
Interest paid on debt	(5,609)	(5,446)	(11,055)	—
Lease receipts	—	11,724	11,724	—
Transfers to other funds	(18,000)	—	(18,000)	—
Repayment of long-term debt	(2,310)	(7,385)	(9,695)	—
Net cash provided (used) by noncapital financing activities	(4,989)	(1,107)	(6,096)	—
Cash flows from investing activities:				
Investment income	58	—	58	—
Net cash provided by investing activities	58	—	58	—
(Decrease) increase in cash and cash equivalents	(9,510)	(1,107)	(10,617)	5,569
Cash and cash equivalents, beginning of year	36,312	20,815	57,127	14,133
Cash and cash equivalents, end of year	\$ 26,802	19,708	46,510	19,702

See accompanying notes to basic financial statements.



**CITY OF BOSTON, MASSACHUSETTS**  
**Statement of Cash Flows – Proprietary Fund Types**  
**Year ended June 30, 2004**  
(In thousands)

	<u>Enterprise funds</u>			
	<u>Convention center</u>	<u>Hospital revenue bonds</u>	<u>Total</u>	<u>Internal service</u>
Reconciliation of operating income to cash provided by operating activities:				
Operating income (loss)	\$ (5,719)	—	(5,719)	8,602
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Changes in operating assets and liabilities:				
Accounts receivable	1,140	—	1,140	(16)
Other assets	—	—	—	(1,740)
Due (to) from other funds	—	—	—	620
Due (to) from component units	—	—	—	(686)
Accounts payable and accrued liabilities	—	—	—	(1,211)
Net cash (used) provided by operating activities	\$ <u>(4,579)</u>	<u>—</u>	<u>(4,579)</u>	<u>5,569</u>

See accompanying notes to basic financial statements.



**CITY OF BOSTON, MASSACHUSETTS**  
**Statement of Fiduciary Net Assets – Fiduciary Funds**  
June 30, 2004  
(In thousands)

	<b>Employee retirement plans</b>	<b>Private purpose trusts</b>	<b>Agency funds</b>
<b>Assets:</b>			
Cash and cash equivalents	\$ 628	71,297	2,010
Receivables:			
Interest and dividends	8,860	—	—
Securities sold	16,631	—	—
Other	86,319	1,769	—
Total receivables	111,810	1,769	—
Investments, at fair value:			
Money market	872,695	—	—
MMDT	19,427	—	—
Short-term investments	83,836	—	—
Domestic equity securities	986,941	—	—
Domestic debt securities	377,019	—	—
International equity	463,505	—	—
International debt	141,039	—	—
Real estate	191,997	—	—
Venture capital funds	82,727	—	—
Total investments	3,219,186	—	—
Securities lending short-term collateral investment pool	205,489	—	—
Other assets	—	30	—
Total assets	3,537,113	73,096	2,010
<b>Liabilities:</b>			
Accounts payable	11,753	1,277	—
Securities purchased	83,055	—	—
Collateral held on securities lending	205,489	—	—
Refunds payable and other	—	—	2,010
Total liabilities	300,297	1,277	2,010
<b>Net assets:</b>			
Held in trust for pension benefits and other purposes	\$ 3,236,816	71,819	

See accompanying notes to basic financial statements.



**CITY OF BOSTON, MASSACHUSETTS**  
Statement of Changes in Fiduciary Net Assets –  
Fiduciary Funds  
Year ended June 30, 2004  
(In thousands)

	<u>Employee retirement plans</u>	<u>Private purpose trusts</u>
Additions:		
Contributions:		
Employers	\$ 158,194	—
Employees	103,287	—
Donations and other	—	22,172
Total contributions	<u>261,481</u>	<u>22,172</u>
Investment earnings:		
Net appreciation (depreciation) in the fair value of investments	536,166	—
Interest and dividends	68,278	325
Less investment expenses	<u>(8,740)</u>	<u>—</u>
Net investment (losses) earnings	<u>595,704</u>	<u>325</u>
From securities lending activities:		
Securities lending income	2,835	—
Less borrower rebates and fees	<u>(2,150)</u>	<u>—</u>
Net income from securities lending activities	<u>685</u>	<u>—</u>
Total net investment income (loss)	596,389	325
Intergovernmental	<u>28,993</u>	<u>—</u>
Total (loss) additions	<u>886,863</u>	<u>22,497</u>
Deductions:		
Benefits	299,042	—
Reimbursement to other systems	9,726	—
Refunds of contributions	11,681	—
Administrative expenses	<u>2,475</u>	<u>24,884</u>
Total deductions	<u>322,924</u>	<u>24,884</u>
Change in net assets	563,939	(2,387)
Net assets, beginning of year	<u>2,672,877</u>	<u>74,206</u>
Net assets, end of year	<u>\$ 3,236,816</u>	<u>71,819</u>

See accompanying notes to basic financial statements.



# CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2004

### (1) The Financial Reporting Entity

The accounting policies followed in preparing the accompanying basic financial statements are as follows:

#### (a) *Primary Government*

The City of Boston (the City), incorporated as a town in 1630 and as a city in 1822, now exists under Chapter 486 of the Act of 1909 and Chapter 452 of the Acts of 1948 of the Commonwealth of Massachusetts (the Commonwealth) which, as amended, constitute the City's Charter. The Mayor is elected to a four-year term and serves as chief executive officer of the City. The Mayor has general supervision of and control over the City's boards, commissions, officers and departments. The legislative body of the City is the City Council, which consists of thirteen elected members serving two-year terms.

The accompanying basic financial statements present the City of Boston and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

#### (b) *Blended Component Unit Disclosure*

The following component unit has been presented as a blended component unit (included in the primary government) because the component unit provides services almost exclusively to the primary government:

**State-Boston Retirement System (SBRs)** – The SBRs is a defined benefit contributory retirement system created under state statute. It is administered by a Retirement Board comprised of five members: the City Auditor, who serves *ex officio*; two individuals elected by participants in the system; a fourth member appointed by the Mayor and a fifth member chosen by the other members. The SBRs provides pension benefits to retired City employees.

A complete set of financial statements for SBRs for the fiscal year ended December 31, 2003 can be obtained through the City Auditor's office, Room M-4, City Hall Plaza, Boston, Massachusetts 02201.

#### (c) *Discretely Presented Component Units Disclosure*

These component units are reported in a separate column to emphasize that they are legally separate from the City but are included because the City is financially accountable for and is able to impose its will on the organizations. Unless otherwise indicated, the notes to the basic financial statements pertain only to the primary government because certain disclosures of the component units are not significant relative to the total component units and to the primary government. A description of the component units, criteria for inclusion and their relationship with the City are as follows:

**Boston Redevelopment Authority (BRA)** – The BRA is a public body politic and corporate constituting the City's redevelopment authority and exercising the powers of a planning board for the City. The BRA is governed by a five-member board, four of whom are appointed by the Mayor. Its purpose is to provide planning support for major construction and redevelopment activity in the City.



## CITY OF BOSTON, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2004

**Economic Development and Industrial Corporation of Boston (EDIC)** – The EDIC is a body politic and corporate and an instrumentality of the Commonwealth. It is governed by the same persons appointed as members of the BRA board. The EDIC has various powers to assist industrial development projects in the City and together with the BRA assists the City with its economic development function.

**Boston Public Health Commission (PHC)** – The PHC is a body politic and corporate and public instrumentality of the Commonwealth, established by Chapter 147 of the Acts of 1995. PHC is governed by a seven-member board, six of whom are appointed by the Mayor and confirmed by the City Council, and one of whom is the chief executive officer of the Boston Medical Center (BMC). The PHC is responsible for the implementation of public health programs in the City.

**Trustees of the Public Library of the City of Boston (TPL)** – The TPL is a nonprofit organization qualified as a tax-exempt entity under Section 501(c)(3) of the Internal Revenue Code. Trustees of TPL are appointed by the Mayor. The TPL was established to benefit the public library system of the City.

The financial statements of the discretely presented component units are included for their respective fiscal year-ends, which is on June 30, 2004.

Complete financial statements of these discretely presented component units can be obtained through the City Auditor's office, Room M-4, City Hall Plaza, Boston, Massachusetts 02201. In addition, condensed financial statements for the discretely presented component units are included in note 17.

#### *(d) Related Organizations*

The Mayor is also responsible for appointing members of the governing bodies of the Boston Housing Authority, Boston Industrial Development Finance Authority and Boston Water and Sewer Commission; however, the City's accountability for these organizations does not extend beyond making these appointments.

### **(2) Summary of Significant Accounting Policies**

The accounting policies of the City of Boston, Massachusetts, conform to accounting principles generally accepted in the United States of America as applicable to governmental units as prescribed by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant policies followed by the City:

#### *(a) Government-Wide and Fund Financial Statements*

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported



## CITY OF BOSTON, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2004

separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

#### (b) *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

##### **Government-Wide Financial Statements**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as *program revenues*. Likewise, general revenues include all taxes.

##### **Governmental Fund Financial Statements**

Governmental fund financial statements are reported using the *current financial resources measurements focus and the modified accrual basis of accounting*. Revenues are recognized as soon as they are "susceptible to accrual" (i.e., both measurable and available.) Revenues not considered to be available are recorded as deferred revenue.

The City applies the susceptible to accrual criteria to property taxes and intergovernmental revenues. In applying the susceptible to accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, resources must be expended on the specific purpose or project before any amounts will be reimbursed to the City; therefore, revenues are recognized based upon the amount of expenditures incurred. In the other, resources are virtually unrestricted and are usually revocable by the grantor only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met. Property taxes are recognized as revenue in the year for which taxes have been levied, provided they are collected within 60 days after year-end.



## CITY OF BOSTON, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2004

Expenditures generally are recorded when a liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences and judgments and claims, are recorded only when payment is mature and due.

#### **Proprietary Fund, Fiduciary Fund, and Component Unit Financial Statements**

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from the collection of revenue pledged to repay debt. The principal operating revenues of the City's enterprise funds are lease receipts and excise taxes. The principal operating revenues of the City's internal service funds are charges to other funds for health insurance. Operating expenses for enterprise funds and internal service funds include the interest, administrative expenses, and vendor payments. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

*Governmental funds* – The City reports the following major governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue fund accounts* principally for the activities funded by federal and state grant revenue sources and certain other revenues that are legally restricted to expenditures for specified purposes.

The *capital activities fund* accounts for bond proceeds and grant revenues used for the acquisition or construction of the City capital facilities.

*Proprietary funds* – The City reports the following major proprietary funds:

The *convention center fund* accounts for the City activities related to the financing for the construction of a new state-owned convention center. Revenue debt issued in connection with this fund is payable solely by specified local and state receipts.

The *hospital revenue bond fund* accounts for the activities related to the Boston City Hospital Revenue Bonds. These Bonds are payable solely from the mortgage note payments received from the Public Health Commission. These Bonds are repaid from a pledged revenue source from PHC.

*Fiduciary funds* – Additionally, the City reports the following fiduciary fund types:

The *private-purpose trust fund* is used to account for resources legally held in trust for the benefit of individuals, private organizations, or other governments.



## CITY OF BOSTON, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2004

The *pension trust fund* accounts principally for the activities of the State-Boston Employees Retirement System, a blended component unit, which accumulates resources for pension benefit payments to retired City employees.

The *agency fund* is used to report funds held by the City in a purely custodial capacity.

The City also uses an internal service fund to account for its self-insured health costs. Although the fund is presented in a separate column in the accompanying financial statements, it is not considered a major fund.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

(c) ***Cash Equivalents***

For purposes of the combined statement of cash flows, investments with original maturities of three months or less when purchased are considered to be cash equivalents.

(d) ***Basis of Investment Valuation***

Investments are presented in the accompanying basic financial statements at fair value. Where applicable, fair values are based on quotations from national securities exchanges, except for certain investments of the State-Boston Retirement System which are described in notes 5 and 11. Further, income from investments is recognized in the same fund as the related investments.

(e) ***Interfund Receivables and Payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

(f) ***Uncollectible Tax and Other Receivables***

All receivables are shown net of an allowance for uncollectibles. Amounts considered to be uncollectible are based on the type and age of the related receivable.

(g) ***Capital Assets***

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type



# CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2004

activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$25,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Any significant construction commitments are encumbered at year-end in the City's Capital Project Fund.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	30
Building improvements	30
Infrastructure	30
Land improvements – major	30
Land improvements – playgrounds	15
Computer upgrades	10
Equipment and machinery	10
Computers and related equipment	3
Furniture and fixtures	3
Motor vehicles	3

### (h) *Compensated Absences*

Employees are granted sick and vacation leave in varying amounts. Upon retirement, termination or death, certain employees are compensated for unused sick and vacation leave (subject to certain limitations) at their then current rates of pay. The portion of the liability related to unused sick and vacation time that has matured or is due as of June 30, 2004 is related to the voluntary retirement incentive and is recorded in the governmental fund financial statements. The unamortized portion is presented in the government-wide statement of net assets. The liability for vacation leave is based on the amount earned but not used; for sick leave, it is based on the amount accumulated at the balance sheet date (vesting method). The liability for both amounts is calculated based on the pay or salary rates in effect at the balance sheet date.

### (i) *Long-Term Obligations and Related Costs*

**Premiums, discounts, and issue costs** – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.



## CITY OF BOSTON, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2004

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Arbitrage Rebate** – Rebatable arbitrage earnings are calculated for the City by third parties and accounted for as a liability in the general fund to the extent it is "due and payable." At June 30, 2004, an accumulated arbitrage rebate liability of \$1.9 million was recorded in the general fund.

**(j) Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**(k) Tax Abatement Refunds**

Matured tax abatement refunds that are due and payable at June 30 have been recorded as a liability in the general fund. Other refunds have been recorded in the government-wide statement of net assets.

**(l) Landfill Closure and Postclosure Care Costs**

State and federal regulations require the City to place a final cover on its Gardner Street landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. At June 30, 2004, 100% of the Gardner Street landfill site had been used and had not accepted solid waste for several years. The City has completed the covering of this site in accordance with applicable laws and regulations.

The total current cost of landfill closure and postclosure care is an estimate, subject to changes resulting from inflation, deflation, technology or other changes in applicable laws or regulations. Such costs are recognized as expenditures in the general fund to the extent that they are due or matured and are expected to be paid with expendable available financial resources. The total liability is reported in the government-wide statement of net assets. Expenditures related to the Gardner Street landfill site closure and postclosure care in fiscal 2004 were approximately \$31 thousand.

**(m) Use of Estimates**

The preparation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.



## CITY OF BOSTON, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2004

#### (3) Short-Term Debt

During fiscal year 2004, the City had no short-term debt issued or outstanding.

#### (4) Budgetary Data

The general fund is the only fund for which a budget is legally adopted. The budgets for all departments included in the general fund of the City, except the School Department, are prepared under the direction of the Mayor and City Council. The School Department budget is prepared under the direction of the School Committee.

Original and supplemental appropriations are submitted by the Mayor, approved by the City Council and lapse at year-end unless encumbered. The legal level of control over appropriations is at the department level. Amendments to the original budget must be approved by the City Council, except for a reallocation of appropriations of up to \$3 million which the Mayor may approve. Further, the City Auditor, with the approval of the Mayor, may make transfers from any appropriation to any other appropriation for purposes of eliminating deficits before closing the books for the fiscal year. After the close of the fiscal year, the City Auditor may, with the approval of the Mayor, apply any income, taxes and funds not disposed of and make transfers from any appropriation to any other appropriation for the purpose of closing the accounts for the fiscal year. There were no supplemental appropriations, other than the aforementioned transfers, for the fiscal year ended June 30, 2004.

The City must establish its property tax rate each year so that the resulting property tax levy will comply with the limits required by Proposition 2-1/2 (note 6). The tax levy must equal the sum of (a) the aggregate of all annual appropriations for expenditures; plus (b) the reserve accounts described in the following paragraph; plus (c) provision for the prior fiscal years' deficits, if any; less (d) the aggregate of all nonproperty tax revenues projected to be received by the City, including available funds, in amounts certified or approved by the Commonwealth for tax rate purposes.

In accordance with the 1986 amendments to the Funding Loan Act of 1982, the City has established two reserve funds. The first is a budget reserve fund which is required to be funded in stages to a final level of 2-1/2% of the prior year's overall departmental appropriations, except the School Department, by the beginning of fiscal 1990. It is available to be applied to extraordinary and unforeseen expenditures. The second is a separate reserve fund of 1% to 2-1/2% of the current year appropriation of the School Department to be applied to overexpenditures in that department.

The City's general fund budget is prepared on a basis other than accounting principles generally accepted in the United States of America (GAAP). The "actual" results column in the statement of revenues and expenditures – budgetary basis – general fund is presented on a "budgetary basis" to provide a meaningful comparison of actual results with the budget. The major differences between the budget and GAAP basis, where applicable, are that:

- (a) Revenues are recorded when cash is received except for real estate and personal property taxes are recorded as revenue when levied (budget), as opposed to when susceptible to accrual (GAAP).
- (b) Encumbrances and continuing appropriations which are recorded as the equivalent of expenditures (budget), as opposed to a reservation of fund balance (GAAP).



# CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2004

- (c) Certain activities and transactions are presented in separate funds (GAAP), rather than as components of the general fund (budget).
- (d) Amounts raised for the prior years' deficits and available funds from prior years' surpluses are recorded as revenue items (budget), but have no effect on GAAP revenues.

In addition, there are certain differences in classifications between revenues, expenditures and transfers.

The following reconciliation summarizes the differences between budgetary and GAAP basis accounting principles for the year ended June 30, 2004 (in thousands):

	Revenue	Expenditures	Other financing sources (uses), net	Excess of revenue and other financing sources
As reported on a budgetary basis	\$ 1,892,787	1,888,402	—	4,385
Adjustments:				
Revenues to modified accrual basis	25,017	—	—	25,017
Expenditures, encumbrances, and accruals, net	—	(72,464)	—	72,464
Free cash used	(20,000)	—	—	(20,000)
Reclassifications:				
State-funded teachers' retirement costs	(53,684)	(53,684)	—	—
Convention Center fund revenue	(17,000)	—	17,000	—
Transfers	(2,932)	(3,443)	(511)	—
As reported on a GAAP basis	\$ 1,824,188	1,758,811	16,489	81,866

### (5) Deposits and Investments

State and local statutes place certain limitations on the nature of deposits and investments available to the City. Deposits, including demand deposits, money markets and certificates of deposit in any one financial institution, may not exceed certain levels unless collateralized by the financial institution involved. Investments may be made in unconditionally guaranteed U.S. Government obligations having maturities of a year or less from the date of purchase, or through repurchase agreements with maturities of no greater than 90 days in which the underlying securities consist of such obligations. Other allowable investments include authorized bonds of all states, bankers' acceptances, commercial paper rated within the three highest classifications established by rating agencies, and units in the Massachusetts Municipal Depository Trust (MMDT). The Treasurer of the Commonwealth of Massachusetts oversees the financial management of the MMDT, a local investment pool for cities, towns and other state and local agencies within the Commonwealth. The City's fair value of its investment in the MMDT represents their value of the pool's shares.



**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2004

The City's pension and certain other trust funds have additional investment powers, most notably the ability to invest in common stocks, corporate bonds and other specified investments.

**(a) Deposits**

The City categorized deposits according to the level of risk assumed. Category 1 includes deposits which are fully insured or collateralized with securities held by the entity or its agent in the entity's name. Category 2 includes deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name. Category 3 includes those deposits that are not collateralized. The City's deposits at June 30, 2004 are as follows (in thousands):

	<b>Category</b>			<b>Total bank balance</b>	<b>Carrying amount</b>
	<b>1</b>	<b>2</b>	<b>3</b>		
Total cash deposits	\$ 2,317	—	94,825	97,142	78,688

Outstanding checks largely account for the difference between the bank balance and the carrying amount of deposits.

**(b) Investments**

The City and SBRS categorize investments according to the level of risk assumed. Category 1 includes investments that are insured, registered or held by the entity or its agent in the entity's name. Category 2 includes uninsured and unregistered investments held by the counterparty's trust department or agent in the entity's name. Category 3 includes uninsured and unregistered investments held by the counterparty, or by its trust department or agent but not in the entity's name. MMDT, other mutual funds, pooled funds, venture capital funds and real estate investments are not categorized. The City's investments are as follows (in thousands):

Primary government June 30, 2004	Category			Fair value
	1	2	3	
Categorized:				
U.S. Government obligations	\$ —	965	—	965
Debt securities	—	15,774	—	15,774
Equity securities	—	14,550	39,106	53,656
	<u>\$ —</u>	<u>31,289</u>	<u>39,106</u>	<u>70,395</u>
Not categorized:				
Repurchase agreements				728,346
MMDT				47,102
Mutual funds				72,484
				<u>\$ 918,327</u>



## CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2004

SBRS – December 31, 2003	Category			Fair value
	1	2	3	
Categorized:				
Investments:				
Short-term investments	\$ 83,836	—	—	83,836
Domestic equity securities	923,944	—	—	923,944
Domestic debt securities	286,218	—	—	286,218
International equity	405,332	—	—	405,332
International debt	135,776	—	—	135,776
Securities on loan with noncash collateral:				
Domestic debt securities	10,883	—	—	10,883
International equity	6,884	—	—	6,884
	<u>\$ 1,852,873</u>	<u>—</u>	<u>—</u>	<u>1,852,873</u>
Not categorized:				
Securities on loan with short-term collateral investment pool (cash):				
Domestic debt securities				79,918
International debt securities				5,263
Domestic equity securities				62,997
International equity				51,289
Securities lending short-term collateral investment pool				
				205,489
Investments:				
MMDT				19,427
Pooled funds				872,695
Real estate				191,997
Venture capital funds				82,727
				<u>\$ 3,424,675</u>

The composition of the City's bank deposits and investments fluctuates depending primarily on the timing of real estate tax receipts, proceeds from borrowings, collection of state and federal aid and capital outlays throughout the year.

## (6) Property Taxes

Real and personal property taxes are based on values assessed as of each January 1. By law, all taxable property must be assessed at 100% of fair cash value. Also by law, property taxes must be levied at least 30 days prior to their due date. Once levied, these taxes are recorded as receivables, net of estimated uncollectible balances. Property tax revenues have been recorded using the modified accrual basis of accounting, described in note 2.



# CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2004

The City bills and collects its property taxes on a quarterly basis following the January 1 assessment. The due dates for those quarterly tax billings are August 1, November 1, February 1, and May 1. Property taxes that remain unpaid after the respective due dates are subject to penalties and interest charges.

Based on the City's experience, most property taxes are collected during the year in which they are assessed. Lining of properties on which taxes remain unpaid occurs annually. On November 14, all properties with unpaid fiscal 2001 property taxes were lined. The City ultimately has the right to foreclose on all properties where the taxes remain unpaid.

A statewide property tax limitation known as "Proposition 2-1/2" limits the amount of increase in the property tax levy in any fiscal year. Generally, Proposition 2-1/2 limits the total levy to an amount not greater than 2-1/2% of the total assessed value of all taxable property within the City. Secondly, the tax levy cannot increase by more than 2-1/2% of the prior year's levy plus the taxes on property newly added to the tax rolls. Certain provisions of Proposition 2-1/2 can be overridden by a City-wide referendum.

### (7) Receivables

Receivables as of year-end for the government's individual major funds, nonmajor funds and internal service fund, including the applicable allowances for uncollectible accounts are as follows (in thousands):

	General	Special revenue	Other nonmajor funds	Internal service	Total
Receivables:					
Property taxes	\$ 40,600	—	—	—	40,600
Other taxes	145,011	—	—	—	145,011
Intergovernmental	77,414	116,216	—	—	193,630
Other	34,361	—	385	295	35,041
Gross receivables	297,386	116,216	385	295	414,282
Less allowance for uncollectibles	(185,624)	—	—	—	(185,624)
Net total receivables	\$ 111,762	116,216	385	295	228,658

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows (in thousands):

	Unavailable	Unearned
Delinquent property taxes receivable (general fund)	\$ 17,307	—
Due from component units	—	12,150
Other	—	2,651
Total deferred/unearned revenue for governmental funds	\$ 17,307	14,801



**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2004

**(8) Capital Assets**

Capital asset activity for the year ended June 30, 2004 was as follows (in thousands):

**Primary Government**

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 14,466	—	—	14,466
Construction in progress	473,752	111,320	(77,526)	507,546
Total capital assets not being depreciated	<u>488,218</u>	<u>111,320</u>	<u>(77,526)</u>	<u>522,012</u>
Capital assets being depreciated:				
Land improvements	16,697	8,324	—	25,021
Buildings and improvements	984,820	39,598	—	1,024,418
Furniture and equipment	142,349	17,726	—	160,075
Infrastructure	243,891	23,059	—	266,950
Total capital assets being depreciated	<u>1,387,757</u>	<u>88,707</u>	<u>—</u>	<u>1,476,464</u>
Less accumulated depreciation for:				
Land improvements	6,998	636	—	7,634
Buildings and improvements	783,742	8,285	—	792,027
Furniture and equipment	109,134	15,945	—	125,079
Infrastructure	86,436	7,638	—	94,074
Total accumulated depreciation	<u>986,310</u>	<u>32,504</u>	<u>—</u>	<u>1,018,814</u>
Total capital assets being depreciated, net	<u>401,447</u>	<u>56,203</u>	<u>—</u>	<u>457,650</u>
Governmental activities capital assets, net	<u>\$ 889,665</u>	<u>167,523</u>	<u>(77,526)</u>	<u>979,662</u>



**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2004

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:		
General government	\$	8,348
Human services		201
Public safety		6,794
Public works, including depreciation of general infrastructure assets		8,549
Property and development		1,172
Parks and recreation		1,227
Library		981
Schools		4,906
County		326
Total depreciation expense – governmental activities	\$	<u>32,504</u>

**(9) Interfund Receivable and Payable Balances**

Individual fund and discrete component unit receivable and payable balances at June 30, 2004, are as follows (in thousands):

<u>Interfund balances</u>	<u>Receivable</u>	<u>Payable</u>
General	\$ 25,201	2,144
Special revenue	1,499	8,201
Convention Center	—	17,000
Internal service	645	—
Balances at June 30, 2004	\$ <u>27,345</u>	<u>27,345</u>

The purpose of the internal balances is to fund cash flows due to timing differences between receipts and disbursements (in thousands).

<u>Discrete component unit balances</u>	<u>Receivable</u>	<u>Payable</u>
Primary government:		
General	\$ 12,285	180
Hospital revenue bond	116,739	—
Internal service	41	—
	<u>129,065</u>	<u>180</u>
Discretely presented component units:		
TPL	—	9
PHC	180	129,056
	<u>180</u>	<u>129,065</u>
Balances at June 30, 2004	\$ <u>129,245</u>	<u>129,245</u>



# CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2004

### (10) Long-Term Obligations

#### (a) Governmental Activity Obligations

Following is a summary of the governmental long-term obligations of the City as of June 30, 2004 (in thousands):

	Interest rates	Outstanding, beginning of year	Additions	Reductions	Outstanding, end of year	Due within one year
Bonds and notes payable:						
General obligation refunding bonds dated 4/1/04	2.0-5.0%	\$ —	42,330	—	42,330	5,325
General obligation refunding bonds dated 2/1/04	3.0-5.0%	—	100,870	—	100,870	3,800
General obligation refunding bonds dated 2/1/03	2.25-5.0%	162,015	—	6,865	155,150	8,540
General obligation refunding bonds dated 11/15/02	4.0-5.0%	43,070	—	14,270	28,800	7,895
General obligation refunding bonds dated 8/15/02	2.875-5.0%	48,060	—	265	47,795	270
General obligation bonds dated 2/1/02	3.0-5.0%	93,910	—	6,090	87,820	6,090
General obligation refunding bonds dated 4/11/01	3.50-5.0%	51,525	—	4,215	47,310	4,210
General obligation bonds dated 2/1/01	4.25-5.0%	103,280	—	8,360	94,920	8,360
General obligation bonds dated 2/1/00	5.0-5.75%	53,995	—	9,840	44,155	9,840
General obligation bonds dated 10/15/98	3.25-5.0%	89,160	—	7,710	81,450	6,685
General obligation refunding bonds dated 4/15/98	4.5-5.25%	55,425	—	4,610	50,815	4,780
General obligation bonds dated 1/15/98	4.5%	52,020	—	17,325	34,695	4,620
General obligation bonds dated 11/15/96	5.0%	40,300	—	19,100	21,200	5,400
General obligation bonds dated 10/15/95	5.0-5.25%	16,800	—	9,500	7,300	4,000
General obligation bonds dated 9/1/94	5.0-6.0%	14,680	—	9,640	5,040	5,040
General obligation refunding bonds dated 2/1/94	4.0-5.0%	49,635	—	5,800	43,835	43,835
Total governmental obligation bonds payable		\$ 873,875	143,200	123,590	893,485	128,690
Add (deduct):						
Unamortized bond premiums					23,643	
Unamortized excess of reacquisition price over net carrying amount of defeased bonds					(9,551)	
Current portion of long-term debt					(128,690)	
					\$ 778,887	



**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2004

**(b) Notes Payable and Other Long-Term Obligations**

Following is a summary of the notes payable and other long-term obligations of the City as of June 30, 2004 (in thousands):

	Interest rates	Outstanding, beginning of year	Additions	Reductions	Outstanding, end of year	Due within one year
Notes and leases payable:						
MWPAT note payable	4.25-5.75%	\$ 8,867	—	449	8,418	455
Notes payable – Section 108	5.44-7.18%	32,722	15,000	1,464	46,258	1,570
Bond Anticipation Notes dated 2/02, due 2/06	3.5%	62,000	—	—	62,000	—
Bond Anticipation Notes dated 2/03, due 2/06	2.125%	34,000	—	—	34,000	—
Leases		17,492	4,786	9,678	12,600	6,505
Total notes and leases payable		155,081	19,786	11,591	163,276	8,530
Other long-term obligations:						
Judgments and claims		30,616	3,011	8,159	25,468	847
Compensated absences		161,545	16,868	10,259	168,154	35,808
Landfill postclosure care costs		14,578	—	31	14,547	—
Total other long-term obligations		206,739	19,879	18,449	208,169	36,655
Total notes, leases and other long-term obligations		\$ 361,820	39,665	30,040	371,445	45,185

The payment of liabilities for judgments and claims, compensated absences and landfill postclosure costs is primarily the responsibility of the City's general fund.



# CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2004

### (c) Business Type Activity Obligations

Following is a summary of the business type long-term obligations of the City as of June 30, 2004 (in thousands):

	Interest rates	Outstanding, beginning of year	Additions	Reductions	Outstanding, end of year	Due within one year
Convention Center fund:						
Special Obligation Bonds dated 4/1/02	4.0-5.25%	\$ 114,790	—	2,310	112,480	2,780
Hospital Bond fund:						
Special Obligation Refunding Bonds, Boston City Hospital, dated 8/1/02	2.0-5.0%	127,800	—	7,385	120,415	6,125
Total business type obligations		\$ 242,590	—	9,695	232,895	8,905
Add (deduct):						
Unamortized bond premiums					3,613	
Unamortized excess of reacquisition price over net carrying amount of defeased bonds					(477)	
Current portion of long-term debt					(8,905)	
					\$ 227,126	



# CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2004

### A. General Obligation Bonds

The annual debt service requirements of the City's general obligation governmental bonds outstanding as of June 30, 2004, are as follows (in thousands):

	Principal	Interest	Total
Year ending June 30:			
2005	\$ 128,690	39,214	167,904
2006	71,440	34,793	106,233
2007	70,920	31,897	102,817
2008	66,080	28,827	94,907
2009	63,955	25,613	89,568
2010-2014	266,350	87,344	353,694
2015-2019	163,090	35,215	198,305
2020-2023	62,960	6,896	69,856
	<u>\$ 893,485</u>	<u>289,799</u>	<u>1,183,284</u>

General obligation bonds are backed by the full faith and credit of the City. The Commonwealth has approved school construction assistance, subject to annual appropriation by the state legislature and reports filed with the Commonwealth by the City, to partially provide resources for future principal and interest requirements on general obligation school bonds of the City. As of June 30, 2004, such resources expected to be provided to the City total approximately \$183.5 million from the Commonwealth.

On February 1, 2004, the City issued \$100.9 million of general obligation and refunding bonds, \$65.0 million for various municipal purposes and \$35.9 million for the purpose of refunding certain outstanding general obligation bonds of the City. The proceeds of \$35.9 million were used to refund \$37.7 million of the City's general obligation bonds outstanding. Interest on the bond is payable semiannually each January 1, and July 1, until maturity in fiscal 2024 and 2015, respectively. The cash flow difference and economic gain (the difference between the present values of the debt service payments on old and new debt) obtained from this refunding were \$1.8 million and \$1.5 million, respectively.

On April 1, 2004, the City issued \$42.3 million of general obligation bonds for the purpose of refunding, on a delayed delivery basis, certain outstanding general obligation bonds of the City. The proceeds were used to refund \$43.8 million of the City's general obligation bonds outstanding. Interest on the bond is payable semiannually each February 1 and August 1, until maturity in fiscal 2012. The cash flow difference and economic gain (the difference between the present values of the debt service payments on old and new debt) obtained from this refunding were \$2.5 million and \$2.4 million, respectively.

#### No Obligation Debt

The City has outstanding industrial, commercial and housing development bonds payable solely from revenues of the respective enterprises that do not constitute an indebtedness of the City and are not a charge against its general credit. This aggregate amount is immaterial to the financial statements.

The City is subject to a dual general debt limit: the normal debt limit and the double debt limit. Such limits are equal to 5% and 10%, respectively, of the valuation of taxable property in the City as last equalized by



# CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2004

the State Department of Revenue. Debt may be authorized up to the normal debt limit without state approval. Authorizations under the double debt limit, however, require the approval of the Commonwealth's Emergency Finance Board. Additionally, there are many categories of general obligation debt which are exempt from the debt limit but are subject to other limitations.

As of June 30, 2004, the City may issue \$761.6 million of additional general obligation debt under the debt limit. General obligation debt of \$401.9 million, subject to the debt limit, and \$163.2 million, exempt from the debt limit, is authorized but unissued as of June 30, 2004.

### B. Notes Payable and Other Long-Term Obligations

At June 30, 2004 the City had bond anticipation notes (BANs) and various other notes outstanding totaling \$150.7 million. The City has the intent and ability to refinance the BANs with bond proceeds upon maturity and therefore these amounts are classified as long term in the accompanying statement of net assets.

The annual debt of the City's notes payable as of June 30, 2004, is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2005	\$ 2,025	5,156	7,181
2006	98,206	5,395	103,601
2007	2,300	2,414	4,714
2008	3,809	2,292	6,101
2009	2,836	2,162	4,998
2010-2014	14,701	8,621	23,322
2015-2019	24,222	2,245	26,467
2020-2023	2,577	376	2,953
	<u>\$ 150,676</u>	<u>28,661</u>	<u>179,337</u>

In prior years, the City issued two BANs totaling \$96 million to fund various school projects that are due in fiscal 2006. The City is expected to issue general obligation bonds to refund the BANs; accordingly, they have been classified as long-term obligations.

In fiscal 2002, the City entered into a permanent loan agreement with the Massachusetts Water Pollution Abatement Trust (MWPAT) for \$13.4 million. The loan provides funding for the closure and postclosure care costs relating to the City's Gardner Street Landfill. Proceeds are received on a reimbursement basis from MWPAT as expenditures are incurred by the City.



# CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2004

### C. Proprietary Fund Obligations

The annual debt service requirements of the City's special obligation bonds and Boston City Hospital, Series B, revenue bonds, outstanding as of June 30, 2004 are as follows (in thousands):

	Principal	Interest	Total
Year ending June 30:			
2005	\$ 8,905	10,514	19,419
2006	9,220	10,188	19,408
2007	9,565	9,843	19,408
2008	9,920	9,451	19,371
2009	10,360	9,009	19,369
2010-2014	58,600	38,148	96,748
2015-2019	72,875	23,432	96,307
2020-2024	30,930	10,420	41,350
2025-2029	22,520	2,289	24,809
	<u>\$ 232,895</u>	<u>123,294</u>	<u>356,189</u>

The revenue refunding bonds of the Boston City Hospital (BCH) do not constitute general obligations of the City and the annual debt service of these bonds has been assumed by the Boston Public Health Commission. The Boston Public Health Commission expects to meet its obligation on the bonds through application of a portion of the rent payable to the Boston Public Health Commission by the Boston Medical Center Corporation (BMC) for its lease of the former Boston City Hospital. Under certain circumstances, including a default by BMC under the lease, City revenues may be required to satisfy the debt service requirements on the Series B bonds.

The Boston Public Health Commission has assumed responsibility for paying to the City an amount equal to current debt service on all outstanding general obligation bonds of the City issued for public health and hospital purposes which amounted to \$12.2 million at June 30, 2004.

#### *Defeased Debt – Prior Year*

The following prior year transactions met the requirements of an in-substance defeasance:

- On April 11, 2001, the City issued \$52.0 million in general obligation refunding bonds to advance refund \$49.9 million of 1991, 1994, and 1995 Series Bonds.
- On May 12, 1998, the City issued \$77.9 million in general obligation bonds, dated April 15, 1998, of which \$62.9 million was used to advance refund \$58.0 million of 1989, 1990, 1992 and 1994 Series Bonds.
- In August 2002, \$127.8 million of bonds were issued to refund the Boston City Hospital, Series B Bonds dated June 1, 1993.
- On February 1, 2003, the City issued \$162.0 million of general obligation bonds and refunding bonds, a portion of which was used to refund \$33.4 million of the City's to finance the acquisition price of



# CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2004

the building located at 1010 Massachusetts Avenue and to permanently finance the City's \$25.0 million bond anticipation notes, 2003 Series A.

- On November 15, 2002, the City issued \$43.1 million of general obligation refunding bonds for the purpose of refunding \$45.1 million of outstanding general obligation bonds of the City, 2002 Series C.
- On August 15, 2002, the City issued \$48.6 million of general obligation refunding bonds to advance refund certain outstanding general obligation bonds, 2002 Series B.

The principal amount of debt refunded through in-substance defeasance transactions and still outstanding at June 30, 2004 was approximately \$264.0 million.

### D. Lease Obligations

The City has entered into various capital lease agreements for equipment acquisition. Payments under these agreements are subject to annual appropriation and, by statute, are not included in the City's debt limit calculations. Activity in capital lease agreements during fiscal year 2004 was as follows (in thousands):

Date of issuance	Outstanding, beginning of year	Additions	Reductions	Outstanding, end of year
May 21, 2001	181	—	181	—
October 31, 2001	4,034	—	4,034	—
June 5, 2002	1,168	—	473	695
December 20, 2002	12,109	—	4,990	7,119
April 21, 2004	—	4,786	—	4,786
	<u>\$ 17,492</u>	<u>4,786</u>	<u>9,678</u>	<u>12,600</u>

Assets acquired under capital leases are included in equipment under capital assets.

Future minimum payments under capital leases and installment sales as of June 30, 2004 are as follows (in thousands):

2005	\$ 6,757
2006	3,066
2007	2,404
2008	624
2009	229
Total minimum lease payments	<u>13,080</u>
Less amount representing interest	<u>480</u>
Total minimum principal lease payments	<u>12,600</u>
Less current portion	<u>6,505</u>
Long-term portion	<u>\$ 6,095</u>



## CITY OF BOSTON, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2004

The City's commitment under operating leases is not significant.

#### (11) Retirement Plans

##### (a) Plan Description

The City contributes to the State-Boston Retirement System (the System), a cost-sharing multiple-employer defined benefit pension plan. The System provides retirement, disability and death benefits to plan members and beneficiaries of the following government units:

- (1) City of Boston
- (2) Boston Redevelopment Authority
- (3) Boston Housing Authority
- (4) Boston Water & Sewer Commission
- (5) Public Health Commission
- (6) Sheriff of Suffolk County

Chapter 32 of the Massachusetts General Laws (MGL) assigns authority to establish and amend benefit provisions of the plan to the state legislature.

The System is administered by a five-person Board of Retirement consisting of the City Auditor who serves as a member *ex officio*, two members who are elected by the participants, in or retired from the service of the System, a fourth member appointed by the Mayor and a fifth member chosen by the other members.

The City also participates in the Boston Retirement System (BRS) and made benefit payments of approximately \$6.5 million for the year ended June 30, 2004. The number of BRS plan participants was frozen in 1946. The financial statements of BRS are combined with the System's; however, disclosures for BRS are not material and, thus, are not presented separately.

##### (b) Basis of Accounting

The System's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Investments of the System are stated as follows:

- (a) Bonds are stated at quoted market value.
- (b) Equity securities are stated at quoted market value.
- (c) Real estate funds are stated at appraised value or partner's account value, whichever is more readily determinable.
- (d) Venture capital funds are stated at contributed cost or fair market value, whichever is more readily determinable.
- (e) International investments are stated at quoted market value and are included in equities and fixed income categories.



# CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2004

(f) Cash is stated at carrying amount which is reconciled book balance.

### (c) Membership

Membership in the System consisted of the following at December 31, 2003, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	14,006
Terminated plan members entitled to but not receiving benefits	9,271
Active plan members	20,442
Total membership	43,719
Total number of participating employers	6

### (d) Contributions

Plan members are required to contribute to the System. Depending on their employment date, active members must contribute a range of 5%-9% of their regular gross compensation. Members hired after December 31, 1978 must contribute an additional 2% of regular compensation in excess of \$30,000. Participating employers are required to pay into the System their share of the remaining system-wide actuarially determined contribution, which is apportioned among the employers based on active covered payroll. The Commonwealth of Massachusetts (the Commonwealth) reimburses the City for benefits paid to school teachers. The Commonwealth also reimbursed the System for a portion of benefit payments for cost of living increases granted before July 1, 1998. The contributions of plan members and the participating employers are governed by Chapter 32 of the MGL. The City's required and actual contributions to the System for the years ended June 30, 2004, 2003 and 2002 were \$137 million, \$134 million, and \$130 million, or \$78 million, \$86 million, and \$85 million, net of teachers' retirement, respectively.

During the fall of 1997 the System's Retirement Board, the City Council and the Mayor approved the option for local funding of cost of living adjustments. As a result, a locally funded cost of living adjustment of 3.0% on the first \$12,000 of a retiree's annual payment was awarded in fiscal 2002 and fiscal 2001. These cost of living adjustments will be awarded by the Retirement Board each year, except in years in which the Retirement Board determines that such an adjustment would substantially impair the funding schedule.



**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2004

**(e) Legally Required Reserve Accounts**

The balances in the System's legally required reserves (on the statutory basis of accounting) at December 31, 2003 are as follows (in thousands):

Description	Amount	Purpose
Annuity savings fund	\$ 1,051,204	Active members' contribution balance
Annuity reserve fund	353,114	Retired members' contribution account
Military service credit	47	Members' contribution account while on military leave
Pension reserve fund	1,078,833	Amounts appropriated to fund future retirement benefits
Pension fund	753,618	Remaining net assets
	<u>\$ 3,236,816</u>	

All reserve accounts are funded at levels required by State statute.

**(f) Securities Lending**

The Public Employment Retirement Administration Commission of Massachusetts (PERAC) has issued supplemental regulations that permit the System to engage in securities lending transactions. These transactions are conducted by the System's custodian, which lends certain securities owned by the System to other broker-dealers and banks pursuant to a form of loan agreement. The System and the borrowers maintain the right to terminate all securities lending transactions on demand.

At the System's direction, the custodian lends the System's securities and receives cash (including both United States and foreign currency), United States government securities, sovereign debt of foreign countries, and irrevocable bank letters of credit as collateral. The custodian does not have the ability to pledge or sell collateral unless the borrower defaults. Borrowers are required to deliver cash collateral in amounts equal to not less than 100% of the market value of the loaned securities.

The System does not impose any restrictions on the amount of securities lent on its behalf by the custodian. There were no failures by any borrowers to return loaned securities or pay distributions thereon, and there were no losses from a default of the borrowers or the custodian for the years ended December 31, 2003 and 2002. The cash collateral received by the custodian on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. The relationship between the average maturities of the investment pool and loans was affected by the maturities of the loans made by other plans that invested cash collateral in the collective investment pool, which the System could not determine. At December 31, 2003 and 2002, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts owed to the System. Borrower rebates and fees paid to the custodian during the years ended December 31, 2003 and 2002 were \$2.2 million and \$3.0 million, respectively.



**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2004

At December 31, 2003 and 2002, the fair value of securities loaned by the System amounted to \$217.2 million and \$197.0 million, respectively, against which was held collateral of \$233.9 million and \$204.2 million, respectively, as follows (in thousands):

		<b>December 31</b>	
		<b>2003</b>	<b>2002</b>
Short-term collateral investment pool	\$	205,489	190,801
Noncash collateral		18,387	13,431
Total	\$	<u>223,876</u>	<u>204,232</u>

**(g) Commitments**

At December 31, 2003, the System had contractual commitments to provide \$106 million of additional funding to venture capital funds.

**(12) Other Postemployment Benefit Disclosures**

In addition to the pension benefits described in note 11, the City provides postemployment health care and life insurance benefits, in accordance with state statute and City ordinance, to eligible retirees. Approximately 12,600 retirees meet the eligibility requirements as put forth in Chapter 32B of Massachusetts General Laws. The City pays 75% of Blue Cross/Blue Shield of Massachusetts (BC/BS) premiums and 90% of HMO premiums for medical and hospitalization incurred by retirees and their dependents. The City also pays 75% of BC/BS Medicare premiums for each Medicare eligible retiree. The City provides for 50% of the premiums for \$5,000 of life insurance for each eligible retiree.

Expenditures of approximately \$63.9 million for health care and life insurance benefits for retirees are accounted for on a pay-as-you-go basis in fiscal 2004.

**(13) Transfers**

Transfers and their purposes during the year ended June 30, 2004 were as follows (in thousands):

		<b>Governmental funds</b>	<b>Proprietary fund</b>
		<b>General</b>	<b>Convention center</b>
Primary government:			
Excess hotel/motel excise taxes	\$	<u>17,000</u>	<u>(17,000)</u>
	\$	<u>17,000</u>	<u>(17,000)</u>



# CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2004

### (14) Excess of Expenditures over Budgets

The City had expenditures in excess of their budgeted amounts for the year ended June 30, 2004 in the following categories (in thousands):

General government:	
Collective bargaining	\$ 15,493
Public safety:	
Fire Department	5,858
Public works:	
Snow removal	2,366
Judgments and claims:	
Execution of courts	15,342
Other employee benefits:	
Worker's compensation fund	1,489
State and district assessments	66
	<u>\$ 40,614</u>

The excess expenditures reported above are allowed under the budgetary laws governing the City.

### (15) Public Health System

Effective July 1, 1996, the City's Department of Health and Hospitals and Trustees of Health and Hospitals, were abolished. Substantially all their assets and liabilities, including title to the City's two hospitals, Boston City Hospital (BCH) and Boston Specialty and Rehabilitation Hospital (BSRH), were transferred to and assumed by the Boston Public Health Commission (PHC).

Also effective July 1, 1996, the operations of BCH and BSRH were consolidated with the operations of the Boston University Medical Center under the licensure and control of the Boston Medical Center Corporation (BMC).

The PHC receives the majority of its funding from federal and state grants, lease agreements with BMC and a City appropriation. During fiscal 2004, the City appropriated \$58.8 million to the PHC. As described below, the PHC uses the appropriation to pay debt service on certain general obligation bonds and base assistance grant payments to BMC. The remainder of the appropriation is used for administrative purposes and to support the various public health programs run by the PHC. The City has budgeted \$58.9 million for the PHC for fiscal 2005.

#### *Due from PHC/BMC*

On July 1, 1996, in connection with the consolidation transaction described above, the PHC assumed a liability of \$149.8 million for a mortgage note due to the City of Boston. In August 2002, this note was refinanced such that the stream of payments made by the PHC on the new note will be used to pay the outstanding balance of \$122.9 million of the City's Special Obligation Refunding Bonds dated August 2002. The PHC receives funding for the note payments from the BMC under a lease agreement whereby the BMC leases portions of the former BCH for an initial period of 50 years. Rental payments received under this lease are equal to the debt service costs on the new note and on all City general obligation bonds



## CITY OF BOSTON, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2004

allocable to BCH. These general obligation bonds were issued by the City between December 1967 and October 1995 and total \$12.3 million at June 30, 2004. These bonds pertain to the property and operations of the BCH Campus, South Block Campus, BSRH Campus, Emergency Medical Services Operations and the Long Island Campus.

In addition, the PHC and BMC are also responsible for reimbursing the City for health insurance, equipment lease payments, workers' compensation and other miscellaneous expenses paid for by the City.

#### *Payments to BMC*

PHC is obligated to make future base assistance grant payments to BMC of \$10.8 million each year through fiscal 2019.

#### **(16) Risk Management**

The City is self insured for general liability, property and casualty (except for boiler and machinery losses up to \$2.5 million), worker injury, unemployment and certain employee health claims. The City's Corporation Counsel defends the City in any lawsuits that arise from the normal course of operations, with exposure limited by a state tort cap under Chapter 258 of the Massachusetts General Laws. Except for certain health care costs described below, judgments and claims are charged to the general fund.

The City's health insurance program, administered by the Health Insurance and Benefits Division, a program within Human Resources, provides coverage to the City's employees and retirees through a number of Health Maintenance Organizations (HMO) and Blue Cross/Blue Shield of Massachusetts (BC/BS). Costs to the City for the HMOs, of which 10% is paid by employees, are accounted for in the general fund and are capped at a defined premium payment per employee.

BC/BS acts as a third-party agent for the City in the payment of the various claim plans used by the City. Costs incurred for the operation of the BC/BS plans, of which 25% is paid by employees, are accounted for in a separate health insurance internal service fund.

The City has implemented a comprehensive risk financing strategy that includes establishing a catastrophic risk reserve, currently with a \$7.1 million balance available for future losses. The City has also improved systems for maximizing the receipt of federal disaster funds. On August 28, 2003, the City's property insurance policy went into effect – a one-year, all-risk catastrophic policy covering all City property assets up to \$50 million, after a \$20 million retention. Any boiler and machinery-related property loss is additionally insured, after a \$50,000 deductible, for up to \$2.5 million.



# CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2004

The City has established a liability based on historical trends of previous years and attorney's estimates of pending matters and lawsuits in which the City is involved. Changes in the self-insurance liability for the fiscal years ended June 30, 2004 and 2003 are as follows (in thousands):

		<b>Internal service fund</b>	
		<b>2004</b>	<b>2003</b>
Health and life claims, beginning of year	\$	7,325	7,051
Incurred claims		74,515	72,597
Payments of claims attributable to events of both the current and prior fiscal years:			
Health and life		(75,726)	(72,323)
Health and life claims, end of year	\$	<u>6,114</u>	<u>7,325</u>
		<b>Government-wide statements</b>	
		<b>2004</b>	<b>2003</b>
Judgments and claims, beginning of year	\$	30,616	32,450
Incurred claims		21,273	19,585
Payments of claims attributable to events of both the current and prior fiscal years:			
Workers' compensation		(16,646)	(14,898)
Unemployment compensation		(6,605)	(4,355)
Court judgments		(3,170)	(2,166)
Judgments and claims, end of year	\$	<u>25,468</u>	<u>30,616</u>

The liabilities above have not been discounted to their present value. Incurred claims represent the total of a provision for events of the current fiscal year and any change in the provision for events of the prior fiscal years.

There are numerous pending matters and lawsuits in which the City is involved. The City attorneys estimate that the potential claims against the City not recorded in the accompanying basic financial statements resulting from such litigation would not materially affect the basic financial statements.



**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2004

**(17) Discretely Presented Component Units**

The following presents condensed financial statements for each of the discretely presented component units:

Condensed Statement of Net Assets					
June 30, 2004					
(In thousands)					
	PHC	BRA	TPL	EDIC	Total
<b>Assets:</b>					
Cash and investments	\$ 94,662	41,709	57,011	14,294	207,676
Cash and investments held by trustee	—	—	—	3,880	3,880
Receivables, net:					
Other	10,223	81,445	3,456	17,011	112,135
Other assets	125,540	34,317	2,012	1,223	163,092
Capital assets:					
Nondepreciable	14,713	3,476	—	1,420	19,609
Depreciable	8,752	1,455	1,802	25,723	37,732
Due from BMC	1,401	—	—	—	1,401
Due from primary government	180	—	—	—	180
<b>Total assets</b>	<b>\$ 255,471</b>	<b>162,402</b>	<b>64,281</b>	<b>63,551</b>	<b>545,705</b>
<b>Liabilities:</b>					
Warrants and accounts payable	\$ 9,759	58,545	3,037	4,063	75,404
Accrued liabilities:					
Other	—	—	165	2,396	2,561
Due to BMC	74,562	—	—	—	74,562
Due to primary government	129,056	—	9	—	129,065
Deferred revenue	4,513	36,133	332	8,143	49,121
Noncurrent liabilities:					
Due within one year	414	—	—	935	1,349
Due in more than one year	218	58,919	627	18,732	78,496
Other	4,406	—	—	1,045	5,451
<b>Total liabilities</b>	<b>222,928</b>	<b>153,597</b>	<b>4,170</b>	<b>35,314</b>	<b>416,009</b>
<b>Net assets:</b>					
Invested in capital assets, net of related debt	19,525	3,456	1,175	10,759	34,915
Restricted	—	—	57,037	6,624	63,661
Unrestricted	13,018	5,349	1,899	10,854	31,120
<b>Total net assets</b>	<b>\$ 32,543</b>	<b>8,805</b>	<b>60,111</b>	<b>28,237</b>	<b>129,696</b>



**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2004

Condensed Statement of Revenues, Expenses and Changes in Net Assets

Year ended June 30, 2004

(In thousands)

	PHC	BRA	TPL	EDIC	Total
Operating revenues	\$ 58,909	46,705	19,289	32,188	157,091
City appropriation	58,762	—	—	—	58,762
Total revenues	117,671	46,705	19,289	32,188	215,853
Operating expenses	99,739	46,620	14,580	31,987	192,926
Excess of revenues over (under) expenses	17,932	85	4,709	201	22,927
Nonoperating revenue	842	—	—	—	842
Nonoperating expenses	(10,854)	(1,082)	—	—	(11,936)
Interest expense	(5,530)	—	—	—	(5,530)
Interest income	512	—	—	—	512
Net change in net assets	2,902	(997)	4,709	201	6,815
Net assets, beginning of year	29,641	9,802	54,013	28,036	121,492
Prior period adjustment	—	—	1,389	—	1,389
Net assets, end of year	\$ 32,543	8,805	60,111	28,237	129,696



## CITY OF BOSTON, MASSACHUSETTS

## State-Boston Retirement System

Required Supplementary Information  
(Unaudited)

(Dollar amounts in thousands)

## Schedule of Funding Progress

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
01/01/04	\$ 3,384,814	5,420,842	2,036,028	62.4%	\$ 1,067,492	190.7%
01/01/03	3,204,893	5,121,319	1,916,426	62.6%	1,099,779	174.3%
01/01/02	3,371,716	4,796,130	1,424,414	70.3%	1,052,420	135.3%

## Schedule of Employers' Contributions

	Annual required contribution	Percentage contributed
Year ended December 31:		
2003	\$ 157,064	100%
2002	152,882	100
2001	146,882	100

## Notes to Schedules

Additional information as of the latest actuarial valuation follows:

Valuation date	January 1, 2004
Actuarial cost method	Individual entry age normal
Amortization method	Payment increase at 4.5% per year
Remaining amortization period	Through July 1, 2023
Asset valuation method	Five-year smoothing of investment returns greater (less) than expected
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Inflation rate	5.0%
Cost-of-living adjustments	3.0% on first \$12,000 of retirement income





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## **GENERAL FUND**

The general fund is the operating fund of the City. It is used to account for all revenues, expenditures and other financial resources except those required to be accounted for in other funds.



**City of Boston, Massachusetts**

**Exhibit A-1**

**GENERAL FUND**  
Comparative Balance Sheets  
June 30, 2004 and 2003  
(in thousands)

	<u>2004</u>	<u>2003</u>
<b>ASSETS</b>		
Cash and investments.....	\$ 609,638	\$ 529,315
Receivables:		
Property taxes.....	40,600	41,175
Motor vehicle / boat excise.....	65,370	58,263
Intergovernmental.....	77,414	79,528
Departmental and other.....	34,361	43,726
Tax title and possession.....	79,641	82,925
Total receivables.....	<u>297,386</u>	<u>305,617</u>
Allowance:		
Property Tax.....	(28,001)	-
Tax title and possession.....	(79,641)	(82,925)
Motor vehicle / boat excise.....	(54,611)	(58,263)
Other.....	(23,371)	(23,340)
Total allowances.....	<u>(185,624)</u>	<u>(164,528)</u>
Net Receivable.....	111,762	141,089
Due from other funds.....	25,201	18,000
Due from component units.....	12,285	15,679
Other assets.....	333	-
Total assets.....	\$ <u>759,219</u>	\$ <u>704,083</u>
<b>LIABILITIES</b>		
Warrants and accounts payable.....	\$ 52,187	\$ 33,603
Accrued liabilities:		
Compensated absences.....	-	10,259
Payroll and related costs.....	94,784	104,670
Deposits and other.....	4,596	4,174
Deferred revenue.....	32,108	57,952
Due to other funds.....	2,144	1,765
Due to component units.....	180	-
Matured interest and bonds payable.....	-	306
Total liabilities.....	<u>185,999</u>	<u>212,729</u>
<b>FUND BALANCE</b>		
Reserved for:		
Encumbrances.....	56,132	20,787
Unreserved:		
Designated for subsequent year expenditures.....	139,986	139,028
Undesignated.....	377,102	331,539
Total fund balance.....	<u>573,220</u>	<u>491,354</u>
Total liabilities and fund balance.....	\$ <u>759,219</u>	\$ <u>704,083</u>



**Exhibit A-2**

**GENERAL FUND**

Comparative Statements of Revenues, Expenditures and Changes in Fund Balance  
Years Ended June 30, 2004 and 2003  
(in thousands)

	<u>2004</u>	<u>2003</u>
<b>REVENUES:</b>		
Local:		
Real and personal property taxes.....	\$ 1,082,574	\$ 1,053,945
Excises.....	85,354	94,133
Payments in lieu of taxes.....	42,373	40,910
Fines.....	66,342	59,187
Investment income.....	8,253	8,951
Licenses and permits.....	33,900	30,217
Departmental and other revenue.....	45,556	62,373
Total local revenues.....	<u>1,364,352</u>	<u>1,349,716</u>
Intergovernmental:		
Intergovernmental.....	459,836	444,751
Total intergovernmental revenues.....	<u>459,836</u>	<u>444,751</u>
Total revenues.....	<u>1,824,188</u>	<u>1,794,467</u>
<b>EXPENDITURES:</b>		
Current:		
General government.....	30,061	53,343
Human services.....	22,642	24,738
Public safety.....	390,854	394,692
Public works.....	87,045	86,819
Property and development.....	31,088	29,260
Parks and recreation.....	11,260	14,622
Library.....	24,089	27,715
Schools.....	656,291	654,958
Public Health Programs.....	58,762	63,897
County.....	-	4,539
Judgments and claims.....	(3,544)	2,880
Retirement costs.....	87,934	74,720
Other employee benefits.....	129,937	114,512
State and district assessments.....	111,061	69,009
Capital outlays.....	393	2,971
Debt service.....	120,938	121,184
Total expenditures.....	<u>1,758,811</u>	<u>1,739,859</u>
Excess of revenues over expenditures.....	65,377	54,608
<b>OTHER FINANCING SOURCES (USES):</b>		
Payments to escrow agent to refund debt.....	(511)	-
Transfers in.....	17,000	34,637
Total other financing sources (uses).....	<u>16,489</u>	<u>34,637</u>
Net change in fund balances.....	81,866	89,245
Fund balance - beginning.....	491,354	402,109
Fund balance - ending.....	\$ <u>573,220</u>	\$ <u>491,354</u>



## Exhibit A-3

## GENERAL FUND

Schedule of Revenues and Other Financing Sources Compared to Budget (Budgetary Basis)

Year Ended June 30, 2004

(with comparative actual amounts for 2003)

(in thousands)

Classification	2004				2003 Actual
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)	
PROPERTY TAXES					
Real and Personal Property Taxes.....	\$ 1,051,862	1,051,862	1,052,067	\$ 205	\$ 996,030
Revenue class total	1,051,862	1,051,862	1,052,067	205	996,030
MOTOR VEHICLE EXCISE					
Motor Vehicle Excise - Current.....	33,849	33,849	21,842	(12,007)	27,056
Motor Vehicle Excise - Prior Years.....	-	-	11,295	11,295	18,520
Boat Excise - Current and Prior Years.....	5	5	70	65	35
Revenue class total	33,854	33,854	33,207	(647)	45,611
OTHER EXCISE TAXES					
Hotel / Motel Room Excise.....	18,000	18,000	17,000	(1,000)	18,000
Aircraft Fuel Excise.....	10,500	10,500	8,524	(1,976)	18,839
Condominium Conv. Excise.....	250	250	835	585	675
Urban Redevelopment Ch.121A.....	31,000	31,000	34,703	3,703	35,280
Revenue class total	59,750	59,750	61,062	1,312	72,794
COMMONWEALTH OF MASSACHUSETTS					
State Owned Lands.....	171	171	171	-	213
Exemption - Elderly.....	386	386	454	68	880
Exemption - Other.....	466	466	464	(2)	466
Lottery.....	53,968	53,968	53,968	-	57,556
Veterans Services - Local Aid.....	1,106	1,106	1,618	512	1,210
Pensions - Retired Teachers.....	53,684	53,684	61,390	7,706	53,728

(continued)



## Exhibit A-3 (continued)

## GENERAL FUND

Schedule of Revenues and Other Financing Sources Compared to Budget (Budgetary Basis)

Year Ended June 30, 2004

(with comparative actual amounts for 2003)

(in thousands)

Classification	2004				2003 Actual
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)	
Additional Assistance.....	164,211	164,211	164,211	-	175,126
Police Career Incentive.....	7,800	7,800	7,942	142	7,342
Local Share of Racing Taxes.....	700	700	723	23	478
School Construction - State.....	16,714	16,714	17,555	841	17,233
Charter School Reimbursement.....	4,915	4,915	3,085	(1,830)	-
Chapter 70 Education Aid.....	200,498	200,498	200,498	-	173,536
School Transportation Programs.....	-	-	9,153	9,153	10,449
Revenue class total	504,619	504,619	521,232	16,613	498,217
DEPARTMENTAL & OTHER REVENUE					
Penalties & Interest - Property Taxes.....	1,500	1,500	1,768	268	2,076
Penalties & Interest - Motor Vehicle.....	2,850	2,850	2,910	60	2,938
Penalties & Interest - Tax Title.....	3,500	3,500	5,145	1,645	4,152
Unapportioned Assessments.....	10	10	25	15	24
Streets Paid in Advance.....	1	1	-	(1)	-
Other Departmental Fees & Charges.....	189	189	428	239	-
Unapportioned Street Assessments.....	-	-	-	-	1
ISD - Miscellaneous Charges.....	-	-	-	-	5
Purchasing Services.....	-	-	-	-	39
Registry Division Fees.....	975	975	1,662	687	976
City Record Publications.....	-	-	-	-	5
Assessing Fees.....	-	-	-	-	27
Licenses.....	800	800	935	135	1,164
Other Departmental.....	859	859	5,853	4,994	-
City Clerk Fees.....	700	700	535	(165)	786
Sale of Equipment.....	-	-	-	-	20
Election Fees.....	-	-	-	-	119

(continued)



## Exhibit A-3 (continued)

## GENERAL FUND

## Schedule of Revenues and Other Financing Sources Compared to Budget (Budgetary Basis)

Year Ended June 30, 2004

(with comparative actual amounts for 2003)

(in thousands)

Classification	2004				2003 Actual
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)	
Muni Medicaid Reimbursement.....	10,500	10,500	11,572	1,072	17,620
City Council Fees.....	-	-	-	-	1
Passport Execution Fees.....	-	-	-	-	57
Environment Fees.....	-	-	-	-	47
Police Services.....	480	480	827	347	750
Police Fitness & Wellness Fees.....	-	-	-	-	20
Fire Services.....	2,700	2,700	2,703	3	2,770
Fire Department-Misc.....	-	-	-	-	9
Parking Facilities.....	1,500	1,500	1,520	20	1,848
Street, Sidewalk and Curb Repairs.....	2,500	2,500	2,309	(191)	2,721
Demolition of Abandoned Structures.....	25	25	114	89	24
Property Mgmt - Building Rents.....	631	631	1,554	923	270
C/H Coffee Shop 8th Floor.....	-	-	-	-	7
C/H Walker Associates.....	-	-	-	-	3
New Chardon St. C. O. M.....	-	-	-	-	101
Job Tylers.....	-	-	-	-	29
Greetings from Boston.....	-	-	-	-	10
International News.....	-	-	-	-	22
U.S.P.S.....	-	-	-	-	17
Brearley Collection.....	-	-	-	-	19
Boston Creamery.....	-	-	-	-	19
Heritage Shop.....	-	-	-	-	35
Red Barn Coffee House.....	-	-	-	-	32
Stamp of Approval.....	-	-	-	-	9
Out of Left Field.....	-	-	-	-	33
Local Color Inc.....	-	-	-	-	38
DND Other Revenue.....	-	-	-	-	39
Special Events - Faneuil Hall.....	-	-	-	-	80
Special Events - City Hall.....	-	-	-	-	22
Utility Reimbursement.....	-	-	-	-	48

(continued)



## Exhibit A-3 (continued)

## GENERAL FUND

Schedule of Revenues and Other Financing Sources Compared to Budget (Budgetary Basis)

Year Ended June 30, 2004

(with comparative actual amounts for 2003)

(in thousands)

Classification	2004				2003 Actual
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)	
Miscellaneous Property Management.....	-	-	-	-	3
St.Furniture Program Fixed Fees.....	750	750	750	-	500
St.Furniture Program Adm Fees.....	4	4	315	311	94
Veterans Services.....	-	-	-	-	4
Fiber Optics Access Fees.....	250	250	207	(43)	522
Public Works - Other Charges.....	-	-	2	2	562
Tuition and Transportation - Schools.....	550	550	396	(154)	588
Miscellaneous Receipts - Schools.....	-	-	-	-	15
Library Fees.....	175	175	322	147	351
Other Penalties & Interest.....	-	-	7	7	-
ISD - Board of Appeals Fees.....	-	-	-	-	1
Cobra/selfpay.....	750	750	1,184	434	1,136
Telephone Commissions - Real Property.....	-	-	-	-	30
Insurance Proceeds.....	-	-	-	-	1
City Workers' Comp. Reimbursement.....	-	-	-	-	1,317
Police Detail Payroll.....	-	-	1,321	1,321	-
Affirmative Recovery Unit.....	700	700	456	(244)	1,206
Special Prosecutors Office.....	-	-	-	-	11
Fringe Reimbursements.....	-	-	-	-	(11)
Pensions and Annuities.....	1,100	1,100	3,003	1,903	1,086
Indirect Costs Reimbursement.....	500	500	-	(500)	1,850
Private Detail Payroll.....	-	-	-	-	(1,098)
Miscellaneous Recovered Revenues.....	-	-	-	-	45
Prior Year Reimbursements.....	500	500	755	255	4,173
Other General Services.....	-	-	-	-	5
Miscellaneous Refunds.....	-	-	-	-	3
Miscellaneous Collections.....	-	-	-	-	233

(continued)



## Exhibit A-3 (continued)

## GENERAL FUND

Schedule of Revenues and Other Financing Sources Compared to Budget (Budgetary Basis)

Year Ended June 30, 2004

(with comparative actual amounts for 2003)

(in thousands)

Classification	2004				2003 Actual
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)	
Child Support Reimbursement.....	-	-	-	-	49
Miscellaneous - Treasury.....	-	-	-	-	490
Police Detail Admin. Fee.....	2,195	2,195	2,380	185	2,195
Property Mgmt - Detail Admin Fees.....	-	-	-	-	9
Fire - Administrative Fees.....	-	-	1	1	318
Revenue class total	37,194	37,194	50,959	13,765	54,720
<b>FINES</b>					
Parking Fines.....	56,500	56,500	63,097	6,597	55,327
Court Fines.....	71	71	121	50	-
Municipal Criminal Court.....	-	-	-	-	14
Bicycle Fines - Muni Criminal.....	-	-	-	-	2
Municipal Civil Court.....	2,879	2,879	2,836	(43)	3,043
East Boston District Court.....	-	-	-	-	21
Brighton District Court.....	-	-	-	-	15
Charlestown District Court.....	-	-	-	-	1
Dorchester District Court.....	-	-	-	-	12
Roxbury District Court.....	-	-	-	-	5
South Boston District Court.....	-	-	-	-	20
West Roxbury District Court.....	-	-	-	-	8
ISD - Fines.....	25	25	2	(23)	27
Code Enforcement.....	475	475	286	(189)	490
Revenue class total	59,950	59,950	66,342	6,392	58,985

(continued)



## Exhibit A-3 (continued)

## GENERAL FUND

Schedule of Revenues and Other Financing Sources Compared to Budget (Budgetary Basis)

Year Ended June 30, 2004

(with comparative actual amounts for 2003)

(in thousands)

	2004				
<u>Classification</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>2003 Actual</u>
<b>PAYMENTS IN LIEU OF TAXES</b>					
Old City Hall.....	-	-	-	-	798
Mass Port Authority.....	10,900	10,900	11,017	117	10,903
E.O.C.D.....	-	-	-	-	3
Boston Housing Authority.....	-	-	-	-	509
Marriott Custom House Tower.....	-	-	-	-	254
St. Joseph Community Inc.....	-	-	-	-	11
Tenants Development Corp.....	-	-	-	-	362
Viviendas Associates.....	-	-	-	-	2
East Boston Comm. Associates.....	-	-	-	-	2
Westland Avenue Associates.....	-	-	-	-	91
ETC Development Corp.....	-	-	-	-	486
Commonwealth Flats Develop. East LP.....	-	-	-	-	43
Wentworth Institute.....	-	-	-	-	2
Emerson.....	-	-	-	-	36
Spaulding Rehabilitation Hospital.....	-	-	-	-	47
MASCO.....	-	-	-	-	111
Beth Israel Hospital.....	-	-	-	-	125
Massachusetts Mental Health Program.....	-	-	-	-	64
Bay Cove Human Services.....	-	-	-	-	9
Domicilia.....	-	-	-	-	4
Noble School.....	-	-	-	-	12
Dana Farber.....	-	-	-	-	74
Mass College of Pharmacy.....	-	-	-	-	102
Metro Health Foundation.....	-	-	-	-	8
North End Comm Health Center.....	-	-	-	-	56
New England School of Law.....	-	-	-	-	13
Brigham and Women's Hospital.....	-	-	-	-	788
E.D.I.C.....	-	-	-	-	400

(continued)



## Exhibit A-3 (continued)

## GENERAL FUND

Schedule of Revenues and Other Financing Sources Compared to Budget (Budgetary Basis)

Year Ended June 30, 2004

(with comparative actual amounts for 2003)

(in thousands)

Classification	2004				2003 Actual
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)	
Tufts University.....	-	-	-	-	58
Section 2C Exempt To Table.....	-	-	-	-	355
Boston Medical Center.....	-	-	-	-	68
Museum of Fine Arts.....	-	-	-	-	43
Children's Hospital.....	-	-	-	-	109
Shaw.....	-	-	-	-	88
Boston College.....	-	-	-	-	215
New England Deaconess Hospital.....	-	-	-	-	42
New England Medical Center Hospital.....	-	-	-	-	669
Boston Symphony Orchestra.....	-	-	-	-	36
Boston University.....	-	-	-	-	3,229
Misc PILOTS.....	11,281	11,281	11,251	(30)	59
Sale of Property - Special Taxes.....	-	-	-	-	54
Berkeley School.....	-	-	-	-	173
Trimount Foundation.....	-	-	-	-	15
Harvard Community Health Plan.....	-	-	-	-	7
Mass General Hospital.....	-	-	-	-	2,188
Harvard University.....	-	-	-	-	1,567
Suffolk University.....	-	-	-	-	202
Simmons College.....	-	-	-	-	15
Northeastern University.....	-	-	-	-	136
Misc Chapter 121B Section 16.....	1,530	1,530	1,449	(81)	-
Misc Chapter 121A Section 6A.....	13,899	13,899	18,656	4,757	16,267
Revenue class total	37,610	37,610	42,373	4,763	40,910
INVESTMENT INCOME					
Interest on Investments.....	4,200	4,380	7,792	3,412	8,552
Revenue class total	4,200	4,380	7,792	3,412	8,552

(continued)



## Exhibit A-3 (continued)

## GENERAL FUND

Schedule of Revenues and Other Financing Sources Compared to Budget (Budgetary Basis)

Year Ended June 30, 2004

(with comparative actual amounts for 2003)

(in thousands)

Classification	2004			Variance Favorable (Unfavorable)	2003 Actual
	Original Budget	Final Budget	Actual		
<b>LICENSES AND PERMITS</b>					
Building Structures and Permits.....	11,500	11,500	22,725	11,225	20,146
Weights and Measures.....	200	200	235	35	232
Street and Curb Permits.....	1,400	1,400	1,805	405	1,633
Pre-rental Inspections.....	60	60	90	30	69
Other Dept Licenses & Permits.....	565	565	626	61	-
Public Safety-Inspectional Services.....	-	-	-	-	22
Health Inspections.....	1,050	1,050	1,183	133	1,099
Alcoholic Beverages and Licenses.....	2,200	2,200	2,362	162	2,280
Entertainment Licenses.....	480	480	1,383	903	507
Police and Protective Permits.....	-	-	-	-	497
Professional & Occupational Licenses.....	-	-	-	-	85
Police Firearm Permits.....	-	-	81	81	(41)
Other Business Licenses and Permits.....	975	975	127	(848)	1,009
Cable Television.....	2,600	2,600	4,203	1,603	2,608
Revenue class total	21,030	21,030	34,820	13,790	30,146
<b>TRANSFERS AND OTHER AVAILABLE FUNDS</b>					
Surplus Property Fund.....	4,876	4,876	-	(4,876)	13,000
Appropriated Cemetery Trustee.....	1,932	1,932	1,932	-	1,849
Appropriated Parking Meter Receipts.....	10,000	10,000	1,000	(9,000)	10,000
Appropriated Fund Balance.....	25,000	25,000	20,000	(5,000)	-
Revenue class total	41,808	41,808	22,933	(18,875)	24,849
Total Revenues and Other Financing Sources	1,851,877	\$ 1,852,057	\$ 1,892,787	\$ 40,730	\$ 1,830,814



## Exhibit A-4

**GENERAL FUND**  
 Schedule of Expenditures Compared to Budget (Budgetary Basis)  
 Year Ended June 30, 2004  
 (with comparative actual amounts for 2003)  
 (in thousands)

		2004					2003	
		Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)	Actual		
GENERAL GOVERNMENT								
Costs of Issuance - RANS.....	\$	500	500	58	\$	442	\$	146
Annual Audit Costs.....		600	600	449		151		600
Mayor's Office.....		1,432	1,486	1,414		72		1,511
City Council.....		3,804	3,814	3,682		132		3,769
Office of New Bostonians.....		78	78	78		-		78
Consumer Affairs and Licensing.....		363	368	360		8		392
Election Department - Election Division.....		2,427	2,489	2,052		437		2,447
Election Department - Listing Board.....		264	202	154		48		116
Auditing Department.....		1,810	1,889	1,888		1		1,785
Taxpayer Referral Department & Asst. Cntr.....		-	-	-		-		332
Assessing Department.....		5,145	5,168	5,138		30		4,861
Treasury Department - Collecting Division.....		2,081	2,091	2,087		4		2,192
Treasury Department - Treasury Division.....		1,770	1,944	1,930		14		1,778
Office of Budget Management.....		2,099	2,342	2,342		-		2,468
Human Resources.....		2,097	2,109	2,099		10		2,329
Purchasing Division.....		1,118	1,141	1,138		3		1,229
Office of Chief Operating Officer.....		860	909	902		7		851
Graphic Arts.....		1,376	1,394	1,392		2		1,558
Office Labor Relations.....		898	924	919		5		897
Management Information System.....		13,225	12,981	12,790		191		13,447
Intergovernmental Relations.....		893	989	978		11		866
Small & Local Business.....		542	546	540		6		580
Office of Boston Residents Job Policy.....		429	432	426		6		449
Risk Retention Reserve.....		1,000	1,000	1,000		-		1,000
Law Department.....		4,545	4,796	4,344		452		4,910
City Clerk.....		834	855	828		27		864
Registry Division.....		741	744	713		31		753
Finance Commission.....		160	160	159		1		166

(continued)



## Exhibit A-4 (continued)

**GENERAL FUND**  
 Schedule of Expenditures Compared to Budget (Budgetary Basis)  
 Year Ended June 30, 2004  
 (with comparative actual amounts for 2003)  
 (in thousands)

	2004				
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)	2003 Actual
Office of Civil Rights.....	277	277	271	6	308
Emergency Shelter Commission.....	524	524	500	24	572
Public Information.....	875	875	851	24	818
Neighborhood Services.....	969	1,019	995	24	939
Arts & Cultural Development.....	1,544	1,598	1,591	7	982
Women's Commission.....	140	140	140	-	152
Office of Cultural Affairs.....	-	-	-	-	720
Tregor Reserve Fund.....	-	417	417	-	151
Reserve For Collective Bargaining.....	17,001	5,806	21,301	(15,495)	8,385
Function total	72,421	62,607	75,926	(13,319)	65,401
<b>HUMAN SERVICES</b>					
Rental Housing Resource Center.....	647	647	551	96	665
Boston Center/Youth & Families.....	18,404	16,842	16,822	20	18,519
Elderly Commission.....	2,404	2,406	2,404	2	2,495
Veterans Services Department.....	3,199	3,223	3,168	55	3,257
Function total	24,654	23,118	22,945	173	24,936
<b>PUBLIC SAFETY</b>					
Police Department.....	211,285	211,398	211,363	35	217,406
Fire Department.....	131,856	131,896	137,754	(5,858)	142,653
Transportation - Traffic Division.....	18,367	18,746	18,515	231	18,709
Transportation - Parking Clerk.....	8,953	9,123	8,968	155	9,284
Licensing Board.....	558	560	533	27	590
Inspectional Services Department.....	13,081	13,283	13,032	251	13,590
Youth Fund.....	3,795	3,795	3,662	133	6,617
Function total	387,895	388,801	393,827	(5,026)	408,849

(continued)



## Exhibit A-4 (continued)

**GENERAL FUND**  
 Schedule of Expenditures Compared to Budget (Budgetary Basis)  
 Year Ended June 30, 2004  
 (with comparative actual amounts for 2003)  
 (in thousands)

	2004				
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)	2003 Actual
<b>PUBLIC WORKS</b>					
Public Works Department.....	73,385	75,561	75,561	-	75,188
Central Maintenance Facility.....	2,070	2,070	2,034	36	1,608
Snow Removal.....	7,678	7,679	10,044	(2,365)	9,803
Function total	<u>83,133</u>	<u>85,310</u>	<u>87,639</u>	<u>(2,329)</u>	<u>86,599</u>
<b>PROPERTY AND DEVELOPMENT</b>					
Property Management.....	18,748	21,244	21,243	1	19,061
Neighborhood Development.....	2,270	2,270	2,157	113	2,683
Leading the Way.....	3,000	3,000	3,000	-	13,000
Function total	<u>24,018</u>	<u>26,514</u>	<u>26,400</u>	<u>114</u>	<u>34,744</u>
<b>PARKS AND RECREATION</b>					
Parks and Recreation Department.....	10,225	10,759	10,747	12	11,909
Environment Department.....	915	1,015	962	53	990
Cemetery Division.....	1,932	1,932	1,727	205	1,781
Function total	<u>13,072</u>	<u>13,706</u>	<u>13,436</u>	<u>270</u>	<u>14,680</u>
<b>LIBRARY</b>					
Library Department.....	23,981	24,086	24,086	-	27,726
Function total	<u>23,981</u>	<u>24,086</u>	<u>24,086</u>	<u>-</u>	<u>27,726</u>
<b>SCHOOLS</b>					
Boston Public Schools.....	646,100	656,547	656,539	8	650,600
Function total	<u>646,100</u>	<u>656,547</u>	<u>656,539</u>	<u>8</u>	<u>650,600</u>

(continued)



## Exhibit A-4 (continued)

**GENERAL FUND**  
 Schedule of Expenditures Compared to Budget (Budgetary Basis)  
 Year Ended June 30, 2004  
 (with comparative actual amounts for 2003)  
 (in thousands)

	2004				
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)	2003 Actual
<b>PUBLIC HEALTH</b>					
Public Health Commission.....	58,582	58,762	58,762	-	63,897
Function total	58,582	58,762	58,762	-	63,897
<b>COUNTY</b>					
Suffolk County Jail.....	-	-	-	-	4,737
Function total	-	-	-	-	4,737
<b>JUDGMENTS AND CLAIMS</b>					
Execution of Courts.....	3,500	3,500	18,842	(15,342)	2,166
Function total	3,500	3,500	18,842	(15,342)	2,166
<b>OTHER EMPLOYEE BENEFITS</b>					
Medicare Payments.....	4,100	4,100	4,100	-	3,902
Human Resources-Health Insurance.....	451	454	454	-	486
Health Benefits & Insurance.....	125,372	125,373	124,957	416	108,927
Unemployment Compensation.....	250	250	6	244	-
Workers' Compensation Fund.....	2,200	2,200	3,689	(1,489)	1,849
Function total	132,373	132,377	133,206	(829)	115,164
<b>PENSION COSTS</b>					
State - Boston Retirement System.....	136,967	136,967	136,967	-	134,425
Pensions and Annuities - City.....	4,600	4,600	4,600	-	4,600
Pensions and Annuities - County.....	300	300	300	-	300
Function total	141,867	141,867	141,867	-	139,325

(continued)

(continued)



## Exhibit A-4 (continued)

**GENERAL FUND**  
 Schedule of Expenditures Compared to Budget (Budgetary Basis)  
 Year Ended June 30, 2004  
 (with comparative actual amounts for 2003)  
 (in thousands)

	2004				2003
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)	Actual
<b>DEBT REQUIREMENTS</b>					
Redemption of City Loans.....	80,722	80,722	80,722	-	81,333
City Debt and Interest Payments.....	37,543	37,543	37,543	-	36,385
Temporary Notes.....	4,625	2,417	2,417	-	-
MWPAT Principal.....	449	449	449	-	444
MWPAT Interest.....	136	136	136	-	141
BAN Interest.....	2,599	2,599	2,599	-	2,881
Function total	<u>126,074</u>	<u>123,866</u>	<u>123,866</u>	<u>-</u>	<u>121,184</u>
<b>STATE &amp; DISTRICT ASSESSMENTS</b>					
Health Insurance/Retirement.....	525	525	525	-	591
Parking Surcharge.....	3,381	3,381	3,519	(138)	3,380
Mosquito Control Projects.....	180	180	180	-	194
Special Education Chapter 766.....	464	464	407	57	351
Metropolitan Air Pollution Center.....	159	159	159	-	149
Metropolitan Area Planning.....	153	153	153	-	149
M.B.T.A. Assessments.....	64,591	64,591	64,591	-	63,916
School Choice.....	317	317	301	16	268
Charter School Sending Tuition.....	39,873	36,662	36,662	-	-
M.D.C. Assessments.....	11	11	11	-	11
Suffolk County Jail.....	4,553	4,553	4,553	-	-
Function total	<u>114,207</u>	<u>110,996</u>	<u>111,061</u>	<u>(65)</u>	<u>69,009</u>
Total Expenditures \$	<u>\$ 1,851,877</u>	<u>\$ 1,852,057</u>	<u>\$ 1,888,402</u>	<u>\$ (36,345)</u>	<u>\$ 1,829,017</u>



## **SPECIAL REVENUE FUND**

The Special Revenue fund is used to account for the proceeds of specific revenue sources, other than debt service, trust funds or capital projects that are legally restricted for specific purposes. This fund accounts for a number of federal and state grants administered by the City's individual departments. This fund provides additional support to department programs and also accounts for money that has been set aside, generally by state statute, that may be used to support the City's general fund operations. This fund is directly linked to a specific activity and is available without further City Council Appropriation.



## Exhibit B-1

## SPECIAL REVENUE FUND

## Comparative Balance Sheets

June 30, 2004 and 2003

(in thousands)

	2004	2003
<b>ASSETS</b>		
Cash and investments.....	\$ 116,283	\$ 67,535
Receivables (net):		
Intergovernmental.....	116,216	83,769
Departmental and other.....	-	165
Total receivables.....	<u>116,216</u>	<u>83,934</u>
Due from other funds.....	1,499	1,044
Other assets.....	1	-
Total assets.....	<u>\$ 233,999</u>	<u>\$ 152,513</u>
<b>LIABILITIES</b>		
Warrants and accounts payable.....	\$ 32,532	\$ 9,230
Accrued liabilities:		
Deposits and other.....	34,401	31,557
Due to other funds.....	8,201	-
Due to component units.....	-	214
Total liabilities.....	<u>75,134</u>	<u>41,001</u>
<b>FUND BALANCE</b>		
Reserved for:		
Encumbrances.....	34,738	49,019
Unreserved:		
Undesignated.....	<u>124,127</u>	<u>62,493</u>
Total fund balance.....	<u>158,865</u>	<u>111,512</u>
Total liabilities and fund balance.....	<u>\$ 233,999</u>	<u>\$ 152,513</u>



Exhibit B-2

SPECIAL REVENUE FUND

Comparative Statements of Revenues, Expenditures, and Changes in Fund Balance

Years Ended June 30, 2004 and 2003

(in thousands)

	2004	2003
<b>REVENUES:</b>		
Fines.....	\$ 19	\$ 19
Investment income.....	175	479
Licenses and permits.....	70	57
Departmental and other revenue.....	26,374	13,170
Intergovernmental revenues.....	356,555	311,347
Total revenues.....	<u>383,193</u>	<u>325,072</u>
<b>EXPENDITURES:</b>		
Current operations:		
General government.....	3,175	8,385
Human services.....	9,337	7,231
Public safety.....	21,052	23,119
Public works.....	286	186
Property & development.....	86,599	63,851
Parks and recreation.....	1,230	831
Library.....	5,409	5,186
Schools.....	124,356	131,383
Public health programs.....	86	-
County.....	102,044	96,452
Capital outlays.....	1,891	-
Debt service.....	3,054	13,841
Total expenditures.....	<u>358,519</u>	<u>350,465</u>
Excess (deficiency) of revenues over expenditures.....	24,674	(25,393)
<b>OTHER FINANCING SOURCES (USES):</b>		
Long-term debt and capital leases issued.....	15,000	4,094
Payments to escrow agent to refund debt.....	(4,096)	-
Premiums on long-term debt issued.....	11,775	12,100
Total other financing sources.....	<u>22,679</u>	<u>16,194</u>
Net change in fund balances.....	47,353	(9,199)
Fund balance - beginning.....	111,512	120,711
Fund balance - ending.....	<u>\$ 158,865</u>	<u>\$ 111,512</u>





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## **CAPITAL PROJECTS FUND**

This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities. Such resources are derived principally from proceeds of general obligation bonds and from federal and state grants. The use of a capital projects fund is especially common for major capital acquisition or construction activities financed through borrowings or contributions. Unless there is a legal requirement to use a capital projects fund, the use of the capital projects fund type is permitted rather than required.



Exhibit C-1

**CAPITAL PROJECTS FUND**

Comparative Balance Sheets

June 30, 2004 and 2003

(in thousands)

	<u>2004</u>	<u>2003</u>
<b>ASSETS</b>		
Cash and investments.....	\$ 82,694	\$ 62,761
Cash and investments held by trustees.....	3,094	3,788
Due from other funds.....	-	101
Total assets.....	<u>\$ 85,788</u>	<u>\$ 66,650</u>
<b>LIABILITIES</b>		
Warrants and accounts payable.....	\$ 4,560	\$ 9,845
Accrued liabilities:		
Deposits and other.....	<u>25,951</u>	<u>35</u>
Total liabilities.....	<u>30,511</u>	<u>9,880</u>
<b>FUND BALANCE</b>		
Reserved for:		
Encumbrances.....	50,821	84,184
Future appropriations.....	50,374	42,875
Unreserved:		
Undesignated (deficit).....	<u>(45,918)</u>	<u>(70,289)</u>
Total fund balance.....	<u>55,277</u>	<u>56,770</u>
Total liabilities and fund balance.....	<u>\$ 85,788</u>	<u>\$ 66,650</u>



Exhibit C-2

CAPITAL PROJECTS FUND

Comparative Statements of Revenues, Expenditures, and Changes in Fund Balance  
Years Ended June 30, 2004 and 2003  
(in thousands)

	2004	2003
<b>REVENUES:</b>		
Departmental and other.....	\$ 7,985	\$ -
Intergovernmental.....	10,917	13,095
Total revenues.....	<u>18,902</u>	<u>13,095</u>
<b>EXPENDITURES:</b>		
Capital outlays.....	132,562	164,891
Debt service.....	-	25,000
Total expenditures.....	<u>132,562</u>	<u>189,891</u>
Excess (deficiency) of revenues over expenditures.....	<u>(113,660)</u>	<u>(176,796)</u>
<b>OTHER FINANCING SOURCES (USES):</b>		
Long-term debt and capital leases issued.....	147,986	304,440
Payments to escrow agent to refund debt.....	(35,819)	(130,740)
Transfers out.....	-	(14,788)
Total other financing sources.....	<u>112,167</u>	<u>158,912</u>
Net change in fund balances.....	(1,493)	(17,884)
Fund balance - beginning.....	<u>56,770</u>	<u>74,654</u>
Fund balance - ending.....	<u>\$ 55,277</u>	<u>\$ 56,770</u>





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## OTHER GOVERNMENTAL FUNDS

Other Governmental Funds are those funds that are not defined as major funds.

*Permanent Fund*, established by GASB Statement No. 34, the fund is used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs, that is, for the benefit of the government or its citizenry.

The permanent fund is composed of the following pools:

*Pool#1* is used for the maintenance and improvement of the City's parks and cemeteries and the erection and maintenance of statues and monuments for the use and enjoyment of City residents.

*Pool#2* is used for scholarship awards, the purchase of educational equipment and the aid of needy students.



## Exhibit D-1

## OTHER GOVERNMENTAL FUNDS

Combining Balance Sheet

June 30, 2004

(with comparative totals for 2003)

(in thousands)

	Permanent Funds		Total Other Governmental Funds	
	Pool 1	Pool 2	2004	2003
<b>ASSETS</b>				
Cash and investments held by trustees.....	\$ 44,526	\$ 633	\$ 45,159	\$ 42,081
Receivables, net.....	383	2	385	164
Total assets.....	<u>\$ 44,909</u>	<u>\$ 635</u>	<u>\$ 45,544</u>	<u>\$ 42,245</u>
<b>LIABILITIES</b>				
Warrants and accounts payable.....	\$ 742	\$ 4	\$ 746	\$ 450
Total liabilities.....	<u>742</u>	<u>4</u>	<u>746</u>	<u>450</u>
<b>FUND BALANCE</b>				
Reserved for encumbrances.....	84	-	84	176
Undesignated, reported in permanent funds.....	<u>44,083</u>	<u>631</u>	<u>44,714</u>	<u>41,619</u>
Total fund balance.....	<u>44,167</u>	<u>631</u>	<u>44,798</u>	<u>41,795</u>
Total liabilities and fund balance.....	<u>\$ 44,909</u>	<u>\$ 635</u>	<u>\$ 45,544</u>	<u>\$ 42,245</u>



## Exhibit D-2

**OTHER GOVERNMENTAL FUNDS**  
Combining Statement of Revenues, Expenditures  
and Changes in Fund Balance  
Year Ended June 30, 2004  
(with comparative totals for 2003)  
(in thousands)

	Permanent Funds		Total Other Governmental Funds	
	Pool 1	Pool 2	2004	2003
<b>REVENUES:</b>				
Investment income.....	\$ 51	\$ 1	\$ 52	\$ 60
Departmental and other.....	9,444	92	9,536	4,136
Total revenues.....	9,495	93	9,588	4,196
<b>EXPENDITURES:</b>				
General government.....	6,470	82	6,552	4,325
Capital outlays.....	33	-	33	-
Total expenditures.....	6,503	82	6,585	4,325
Excess (deficiency) of revenue over expenditures.....	2,992	11	3,003	(129)
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out.....	-	-	-	(1,849)
Total other financing (uses) sources.....	-	-	-	(1,849)
Deficiency of revenues and other financing sources over expenditures and other financing uses.....	2,992	11	3,003	(1,978)
Fund balance - beginning.....	41,175	620	41,795	43,773
Fund balance - ending.....	\$ 44,167	\$ 631	\$ 44,798	\$ 41,795





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## INTERNAL SERVICE FUND

*Internal Service Fund* accounts for the City's self insurance for health benefits provided by Blue Cross/Blue Shield for City employees, their dependents and retirees. The Internal Service Fund is included in the governmental activities columns in the government-wide statements.



Exhibit E-1

**INTERNAL SERVICE FUND**  
Comparative Statements of Net Assets  
June 30, 2004 and 2003  
(in thousands)

	2004	2003
<b>ASSETS</b>		
Cash and cash equivalents.....	\$ 19,702	\$ 14,133
Receivables, net.....	295	279
Due from other funds.....	645	620
Due from component units.....	41	-
Other assets.....	1,980	240
Total assets.....	<u>\$ 22,663</u>	<u>\$ 15,272</u>
<b>LIABILITIES</b>		
Warrants and accounts payable.....	\$ 17	\$ 17
Accrued liabilities.....	6,114	7,325
Total liabilities.....	<u>6,131</u>	<u>7,342</u>
<b>NET ASSETS</b>		
Unrestricted.....	16,532	7,930
Total net assets.....	<u>\$ 16,532</u>	<u>\$ 7,930</u>



Exhibit E-2

INTERNAL SERVICE FUND

Comparative Statements of Revenues, Expenses and Changes in Net Assets  
Years Ended June 30, 2004 and 2003  
(in thousands)

	2004	2003
<b>REVENUES:</b>		
Employer contributions.....	\$ 61,406	\$ 53,853
Employee contributions.....	22,886	18,773
Miscellaneous.....	36	167
Total operating revenues.....	<u>84,328</u>	<u>72,793</u>
<b>EXPENSES:</b>		
Health benefits.....	<u>75,726</u>	<u>72,323</u>
Total operating expenses.....	<u>75,726</u>	<u>72,323</u>
Changes in net assets.....	8,602	470
Net assets, beginning.....	<u>7,930</u>	<u>7,460</u>
Net assets, end.....	<u>\$ 16,532</u>	<u>\$ 7,930</u>



Exhibit E-3

**INTERNAL SERVICE FUND**  
Comparative Statements of Cash Flows  
Year Ended June 30, 2004 and 2003  
(in thousands)

	<u>2004</u>	<u>2003</u>
<b>Cash Flows From Operating Activities:</b>		
Cash received from customers.....	\$ 84,276	\$ 72,498
Other cash received.....	36	167
Cash paid to vendors.....	<u>(78,743)</u>	<u>(70,584)</u>
Net cash provided by operating activities.....	5,569	2,081
 Cash and cash equivalents, beginning of year.....	 14,133	 12,052
Cash and cash equivalents, end of year.....	<u>\$ 19,702</u>	<u>\$ 14,133</u>
 <b>Cash Flows From Operating Activities:</b>		
Operating income.....	\$ 8,602	\$ 470
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
Accounts receivable.....	(16)	(128)
Other assets.....	(1,740)	1,366
Due (to) from other funds.....	620	107
Due (to) from component units.....	(686)	-
Accounts payable.....	(1,211)	274
Other accrued liabilities.....	-	(8)
Net cash provided by operating activities.....	<u>\$ 5,569</u>	<u>\$ 2,081</u>



## FIDUCIARY FUNDS

### EMPLOYEE RETIREMENT PLANS

*State-Boston Retirement System* is a defined benefit contributory retirement plan covering employees of the City of Boston and Suffolk County, Boston Public Health Commission, Boston Housing Authority, Boston Redevelopment Authority and the Boston Water and Sewer Commission. The system is subject to benefit provisions and financing requirements set forth primarily in Chapter 32 of the Massachusetts General Laws.

### PRIVATE PURPOSE TRUST FUNDS

Private purpose trust funds are used to report any trust arrangement not otherwise classified as pension trusts, or an investment trust fund, "under which principal and income benefit individuals, private organizations, or other governments."

*Pool#1* is used for the maintenance and improvement of the City's parks and cemeteries and the erection and maintenance of statues and monuments for the use and enjoyment of City residents.

*Pool#2* is used for scholarship awards, the purchase of educational equipment and the aid of needy students.

*Pool#5* is formed by the will of George R. White dated May 21, 1920. The will requires that the Fund's income be used for the creation of public utility and beauty for the use and enjoyment of the inhabitants of the City.

*Pool#7* is a co-mingled investment fund of various non-testamentary trust funds of the City of Boston. The non-expendable portion of the fund is composed of donations/contributions from either individuals or organizations. Donations/contributions are to be expended in conformity with their respective trust instruments.

### AGENCY FUND

*Law Enforcement Trust Fund* accounts for proceeds from property seized from illegal drug related activities. Funds can be used to defray the costs of protracted investigations, to provide technical equipment or expertise and provide matching funds for federal grants.



**City of Boston, Massachusetts**

**Exhibit F-1**

**STATE-BOSTON RETIREMENT SYSTEM**

**Comparative Statement of Net Assets**

**June 30, 2004**

**(with comparative totals for 2003)**

**(in thousands)**

	<b>Total</b>	
	<b>State-Boston Retirement System</b>	
	<b>2004</b>	<b>2003</b>
<b>ASSETS</b>		
Cash and investments.....	\$ 3,425,303	\$ 2,851,181
Receivables:		
Interest and dividends.....	8,860	11,254
Securities sold.....	16,631	187,033
Other.....	86,319	84,344
Total receivables.....	<u>111,810</u>	<u>282,631</u>
Total assets.....	\$ <u>3,537,113</u>	\$ <u>3,133,812</u>
<b>LIABILITIES</b>		
Accounts payable.....	\$ 11,753	\$ 10,685
Securities purchased.....	83,055	259,449
Collateral held on securities lending.....	<u>205,489</u>	<u>190,801</u>
Total liabilities.....	<u>300,297</u>	<u>460,935</u>
<b>NET ASSETS</b>		
Held in trust for pension benefits and other purposes.....	\$ <u>3,236,816</u>	\$ <u>2,672,877</u>



Exhibit F-2

PRIVATE PURPOSE TRUST FUNDS  
Combining Statement of Net Assets  
June 30, 2004  
(with comparative totals for 2003)  
(in thousands)

					Total Private Purpose Trust Funds	
	Pool 1	Pool 2	Pool 5	Pool 7	2004	2003
<b>ASSETS</b>						
Cash and investments.....	\$ 21,736	\$ 461	\$ 24,324	\$ 24,776	\$ 71,297	\$ 75,168
Receivables:						
Other.....	193	2	87	1,487	1,769	1,063
Total receivables.....	193	2	87	1,487	1,769	1,063
Capital assets, net of accumulated depreciation.....	-	-	30	-	30	30
Total assets.....	\$ 21,929	\$ 463	\$ 24,441	\$ 26,263	\$ 73,096	\$ 76,261
<b>LIABILITIES</b>						
Accounts payable.....	\$ 384	\$ 4	\$ 473	\$ 416	\$ 1,277	\$ 2,055
Total liabilities.....	384	4	473	416	1,277	2,055
<b>NET ASSETS</b>						
Held in trust for pension benefits and other purposes.....	\$ 21,545	\$ 459	\$ 23,968	\$ 25,847	\$ 71,819	\$ 74,206



Exhibit F-3

AGENCY FUND

Comparative Statement of Net Assets

June 30, 2004

(with comparative totals for 2003)

(in thousands)

		Law Enforcement Trust Fund	
		2004	2003
<b>ASSETS</b>			
Cash and investments.....	\$	2,010	\$ 2,802
Total assets.....	\$	<u>2,010</u>	<u>\$ 2,802</u>
<b>LIABILITIES</b>			
Refunds payable and other.....	\$	2,010	\$ 2,802
Total liabilities.....	\$	<u>2,010</u>	<u>\$ 2,802</u>



Exhibit F-4

STATE-BOSTON RETIREMENT SYSTEM  
Comparative Statement of Changes in Plan Net Assets  
Year Ended June 30, 2004  
(with comparative totals for 2003)  
(in thousands)

	2004	2003
<b>ADDITIONS:</b>		
Contributions:		
Employer.....	\$ 158,194	\$ 156,214
Employee.....	103,287	99,701
Net appreciation (depreciation) in fair value of investments.....	536,166	(373,654)
Interest and dividends.....	68,278	75,609
Management and related fees.....	(8,740)	(8,921)
Securities lending income.....	2,835	3,923
Borrower rebates and fees.....	(2,150)	(3,020)
Intergovernmental.....	28,993	24,315
Total additions.....	<u>886,863</u>	<u>(25,833)</u>
<b>DEDUCTIONS:</b>		
Benefits.....	299,042	259,119
Reimbursements to other systems.....	9,726	7,819
Refunds of contributions.....	11,681	12,967
Administration.....	2,475	2,267
Total deductions.....	<u>322,924</u>	<u>282,172</u>
Changes in net assets.....	563,939	(308,005)
Net assets, beginning of year.....	2,672,877	2,980,882
Net assets, end of year.....	<u>\$ 3,236,816</u>	<u>\$ 2,672,877</u>



## Exhibit F-5

## PRIVATE PURPOSE TRUST FUNDS

Combining Statement of Revenues, Expenditures, and Changes in Net Assets

Year Ended June 30, 2004

(with comparative totals for 2003)

(in thousands)

	Pool 1	Pool 2	Pool 5	Pool 7	Total Private Purpose Trust Funds	
					2004	2003
<b>ADDITIONS:</b>						
Investment income.....	\$ 24	1	29	271	\$ 325	\$ 472
Realized and unrealized losses on investments.....	4,838	63	4,063	11,991	20,955	18,907
Departmental and other revenue.....	-	-	127	1,090	1,217	817
Total operating revenues.....	<u>4,862</u>	<u>64</u>	<u>4,219</u>	<u>13,352</u>	<u>22,497</u>	<u>20,196</u>
<b>DEDUCTIONS:</b>						
Administrative and general .....	<u>2,769</u>	<u>47</u>	<u>3,551</u>	<u>18,517</u>	<u>24,884</u>	<u>18,945</u>
Total operating expenses.....	<u>2,769</u>	<u>47</u>	<u>3,551</u>	<u>18,517</u>	<u>24,884</u>	<u>18,945</u>
Net (decrease) increase in net assets.....	2,093	17	668	(5,165)	(2,387)	1,251
Net assets, beginning of year.....	<u>19,452</u>	<u>442</u>	<u>23,300</u>	<u>31,012</u>	<u>74,206</u>	<u>72,955</u>
Net assets, end of year.....	<u>\$ 21,545</u>	<u>\$ 459</u>	<u>\$ 23,968</u>	<u>\$ 25,847</u>	<u>\$ 71,819</u>	<u>\$ 74,206</u>